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FINANCIAL TIMES

Monday March 30 1992 | EUROPE'S BUSINESS NEWSPAPER | D 8523A

Israeli foreign minister Levy to quit government

Israeli foreign minister David Levy said he was resigning from the government, revealing a deep rift in the ruling Likud party just three months before a national election is due.

His decision follows a poor showing by his supporters in internal party elections last month. Levy insisted he would nevertheless *remain in* the Likud.

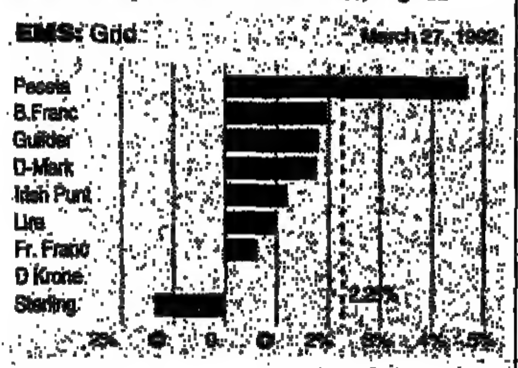
Cash call: The European Community should inject Ecu700m ($868m) of research funds into the European aircraft industry, according to a report being prepared by the Commission's industry department. Page 18

UK election: A pledge from Neil Kinnock that a Labour government would not allow public sector pay to fall further behind the private sector provoked a Conservative charge that the "open-ended" commitment would bring new tax rises. Page 18; Election reports, Pages 6-8; Team short of match practice, Page 18

Spain faces disruption: The main trade unions are considering calling a general strike in protest at a proposed labour market reform aimed at cutting the public sector deficit Page 18

German arms scandal: Calls for the sacking of German defence minister Gerhard Stoltenberg, have followed the disclosure that 15 Leopard I tanks were shipped to Turkey last autumn in defiance of a parliamentary committee ban. Page 3

European Monetary System: The D-Mark again firmed within the EMS, helped by clear indications that the Bundesbank does not intend to lower interest rates soon. Both the Italian Lira and the French Franc weakened, as did the Spanish peseta, easing the position of the pound at the bottom of its peseta band. Currencies, Page 31



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

UK business failures have continued to rise above the high levels of 1991 with 14,881 British businesses collapsing in the first quarter of 1992. Page 10

Intel, largest US semiconductor maker, has pre-empted a challenge to its dominance of the market for personal computer microprocessors by filing a patent infringement suit against Texas company Cyrix. Page 2

Nissan president: Yoshifume Tsuji is to take over in June as president of Nissan Motor, Japan's second-largest carmaker. Page 22

Instituto Nacional de Industria, Spanish state industrial holding, has plunged to Pta61.26bn ($589m) pre-tax losses for 1991 from a profit of Pta9.24bn a year earlier, hurt by dismal performances from its steel, airline and defence companies. Page 22

Danger signals: Environmental pressure group, Greenpeace, warned of the "dangerous practices" of Waste Management, world's largest waste disposer, ahead of a flotation aimed at raising £450m ($782m) for European expansion. Page 19

Lloyd's losses: Working Names – Lloyd's members with jobs at the insurance market – fared significantly better than outside Names in 1989, and will bear proportionately less of the market's losses, according to figures circulating in the market. Page 10

LDP wins: Japan's ruling Liberal Democratic party won two parliamentary seats in a hard-fought lower house by-election in Gunma prefecture, north-west of Tokyo. Page 5

ETA arrest: French interior minister Philippe Marchand said the military leader of the Spanish Basque underground movement, ETA, had been arrested, along with two aides.

Hijackers hijacked: Ten former Soviet citizens were sentenced to life imprisonment in Pakistan for hijacking an Aeroflot airliner over Siberia to Karachi in August 1990.

Red Cross under fire: The International Committee of the Red Cross has been warned it could face expulsion from Sudan because of alleged links with the Sudan People's Liberation Army, according to a Sudan news agency report.

Philippine sell-offs: The Philippine government plans to auction off a majority stake in two more large state groups – National Steel Corporation and Duty-Free Philippines following the success of recent privatisation projects. Page 5

Earl Spencer, father of the Princess of Wales, died at the age of 68. She is expected to fly home today with the Prince of Wales from Austria where they have been on a ski-ing holiday.

Audi boss to take over at VW and axe 12,500 jobs

By Andrew Fisher in Frankfurt

VOLKSWAGEN, Europe's biggest car producer, is appointing a new *chief executive and planning* drastic action to cut costs, including the axing of 12,500 jobs over the next five years.

Mr Ferdinand Piëch, 54, an Austrian with a reputation for toughness who runs VW's successful Audi subsidiary, has been chosen to take over from Mr Carl Hahn next January. Mr Hahn, 65, had been given a two-year extension *of his contract, but will step* down a year earlier than planned.

The company said the cuts of 2,500 a year in its 130,000-strong workforce would occur through natural wastage and would not involve redundancies. It denied a report that cuts of up to 25,000 were planned.

The choice by an inner committee of the company's supervisory board of Mr Piëch as group head underlines VW's determination to streamline its business. While an engineer at Audi, he was involved in several technological innovations and as its chief executive has presided over a period of rising profits and successful model launches.

Until the last few weeks, Mr Daniel Goeudevert, a Frenchman who joined VW from Ford Motors' German subsidiary two years ago, had been regarded as the favoured candidate to succeed Mr Hahn. But with the backing of both trade union and corporate representatives on the supervisory board, it became clear recently that Mr Piëch was in the lead.

■ A man with petrol in his veins
PAGE 19
■ Nissan names Toshifume Tsuji as president-designate
PAGE 22

The appointment still requires the approval of the full non-executive *supervisory board at its* next meeting on April 10, but this is expected to be a formality. Mr Goeudevert, 50, who is responsible for the VW marque within the group, will be appointed deputy chief executive.

VW also announced a 2.5 per cent rise in group net profits to DM1.1bn ($672m) for 1991, with turnover up by 12 per cent to DM76bn. The dividend will be unchanged at DM11 a share. However, it said that profits of the parent company, which reflect domestic performance, fell by a third to DM447m.

Mr Stephen Reitman, motors *analyst with UBS Phillips &* Drew, the London stockbrokers, said the VW parent could be losing money on car sales before financial and other income was added in.

VW has declined to comment *on previous reports that this was* the case and its figures, like those of other German companies, do not make this clear.

"They've got to get their break-even levels way down," he added. It was against this back*ground that Mr Piëch's appoint*ment should be judged. "It's not time to be courting popularity," he said. "He will be the man who rattles cages.

Similar cost problems are being experienced at other motor concerns in Germany, which has Europe's highest labour costs outside Sweden. German car companies have a productivity *lead, but other European coun*tries have been catching up.

VW's main rival in Germany is Opel, part of General Motors of the US. Opel has been reporting steadily rising profits in recent years and its new Astra family car is in direct competition with the third generation of VW's Golf model.

Both companies are building new plants in east Germany.

● John Griffiths in London writes: The changes at Volkswagen take place against a background of sharply increased competition, mainly from Japanese manufacturers.

German-based manufacturers have a particular, and growing problem, with the country's high cost base. But the pressures are being felt throughout the European industry as UK and Spanish-based Japanese "transplant" *factories start to add their output* to direct Japanese imports in the marketplace.

French prime minister Edith Cresson campaigns yesterday in Chatellerault, central France

Dismissal of Soisson brings Mitterrand reshuffle nearer

By Ian Davidson in Paris

THE DISMISSAL at the weekend of Mr Jean-Pierre Soisson, the *former French minister for public* administration, means that President François Mitterrand is virtually certain to have to announce a government reshuffle this week, possibly including the replacement of Mrs Edith Cres*son as prime minister.*

The sacking of Mr Soisson, a leading non-Socialist who had been recruited to broaden the political base of the government, leaves the Socialists looking increasingly isolated and feeble after their humiliating defeat in last Sunday's regional elections.

Their isolation will again be tested by the results of the voting yesterday in the second round of departmental elections. The *national results of this vote will* be much less spectacular than that of the regional elections, however, because it takes place under majority voting rather than proportional representation.

Most estimates have suggested that the conservatives will hold on to almost all the 68 departments they now control, while the Socialists may lose one or two of 20 departments.

The reputations of several leading members of the Socialist government will be on trial in various departments, starting with Mrs Cresson herself.

The most immediate implication of Mr Soisson's sacking is that it may become much more difficult for the Socialists to secure the support of moderate conservatives, either as members of the government or in parliament. Indeed, it may be impossible so long as Mrs Cresson remains prime minister.

Mr Soisson was sacked by Mrs Cresson on the grounds that he had accepted the support of the extreme rightwing National Front members of the newly

Continued on Page 18
Bonds recovery seen, Page 24

Olympia and York chief for talks in London on Canary Wharf

By Bernard Simon in Toronto and Vanessa Houlder in London

MR TOM JOHNSON, the new president of Olympia & York, is in London today to discuss the property developer's financial problems and the future of its mammoth Canary Wharf project in London's Docklands.

Mr Johnson has not revealed who will be present at the talks, but they are believed to be par*ties involved with Canary Wharf.*

O&Y announced on Friday, after a meeting with about 20 of its largest creditors, that it was forming a bank advisory committee, led by Canadian Imperial Bank of Commerce. Citibank and *Hongkong & Shanghai Banking* Corporation.

It has asked lenders to freeze principal repayments on its C$20bn ($16.8bn) debt pending the presentation of an interim restructuring plan on April 6.

In the run-up to the meeting, the value of O&Y's assets, which have been estimated at less than the company's debts by certain bankers, will be under scrutiny.

Inquiries by the Financial Times have shown that 17 per *cent of the Toronto-based compa*ny's US portfolio, which comprises 29m sq ft of offices, is

It has also emerged that members of the Reichmann family, owners of O&Y, have injected more than C$30m into their com*pany by buying O&Y's stake in* Camdev Corp.

A company controlled by Mr Albert Reichmann, the oldest of three brothers, has bought a 66 per cent interest in Camdev from another private Reichmann company. *The latter bought the* shares from O&Y on March 25, two days before the deal with Mr Reichmann.

Terms were not disclosed, but based on Camdev's current stock market value, the shares are *worth about C$38m. Camdev was* formerly known as Campeau Corp. Following a recent restructuring, the Reichmanns ended up with a controlling interest in the company.

O&Y profile, Page 11

Bundesbank says European bank must be in Frankfurt

By Andrew Fisher and Andrew Gowers in Frankfurt

THE BUNDESBANK has launched a strong appeal to EC governments to site the future European central bank (ECB) in Frankfurt, saying such a decision would help establish the institution's anti-inflationary credentials and persuade a sceptical *German public to give up the* D-Mark in favour of monetary union.

Mr Otmar Issing, one of the five top directors of the German central bank, said in an interview: "In no other country ... is the surrender of its own currency so deeply felt as in Germany".

A fierce debate has erupted in Germany since the Maastricht *summit in December over* European monetary union (Emu) and a joint currency.

Mr Issing's comments represent the Bundesbank's most forthright intervention to date over the location of the ECB, also sought by London, Amsterdam, and other cities. They mark a quickening of the debate as the decision looms on a site for the *proposed European Monetary* Institute, the institution which will pave the way for the central bank and whose *location is* expected to determine where the ECB goes.

They also show that the German central bank, along with commercial bankers and the Bonn government, is treating the ECB's location as a question of popular confidence in Emu throughout the EC.

"One shouldn't underestimate *the importance of psychology*", Mr Issing said. "Stability is regarded as being at one with the D-Mark and Frankfurt. We see a decision for Frankfurt against this background".

He added: "The conditions for a European currency which is as stable as the D-Mark will not just be fulfilled by the (ECB) statute, which largely follows the Bundesbank model, but also be backed up by people across Europe saying 'this must be done in Frankfurt'."

Mr Issing also reiterated the Bundesbank's concern to put its own anti-inflationary house in order before Emu. He said the Bundesbank's tight monetary policy, including last December's half point rise in interest rates, was in line with the need to ensure that Emu began under the right conditions.

Germany's efforts to curb inflation – now well over 4 per cent – and to keep its currency stable in the face of weaker economic performance and rising public sector deficits caused by unification were important because of the D-Mark's anchor role in the EC.

"The European central bank will start afresh", he said. "So it *is important that it begins in a* stable environment". Countries taking part in Emu will have to achieve a high degree of economic convergence. "This can't be achieved if the D-Mark is weak and German inflation is at 4 per cent".

The Bundesbank has warned ceaselessly about rising inflation, high wage settlements and unchecked *state spending* in west Germany at a time of big transfer payments to the east. Latest money supply figures also show that the bank's *target for 1992 is* being exceeded by a wide margin.

He expected German inflation to fall clearly below 4 per cent by the year-end, and possibly below 3 per cent. But it would still be above 4 per cent in the next month or so, which was unfortu-

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Austria	Sch30	Hungary	Ft192	Malta	Lm0.50	S.Arabia	SR9.00
Bahrain	Din1.000	Iceland	IKr190	Morocco	MDh11	Singapore	S$4.10
Belgium	BFr60	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2600	Oman	OR1.20	Thailand	Bht50
Egypt	E£4.00	Jordan	JD1.20	Pakistan	Rs35	Tunisia	Din1.000
Finland	FM10	Korea	Won 2500	Philippines	Peso45	Turkey	L6000
France	FFr8.00	Kuwait	Fils.500	Poland	Zl 18,000	UAE	Dh9.00
Germany	DM3.30	Lebanon	L£1,250	Portugal	Es180		
Greece	Dr250	Lux	LFr60	Qatar	QR10.00		

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Efforts grow to agree Community policy on tied aid and export credit terms

EC members may pool aid budgets

By David Dodwell, World Trade Editor

EUROPE'S national aid budgets could eventually *be pooled as part of* a common foreign trade policy, according to officials in Brussels. This long-term objective has emerged as efforts gather pace to lay common ground rules across the European Community for tied aid and export credit terms to developing countries.

The EC has in the past year set up two working parties intended to prepare reports on eventual harmonisation of export finance practices among member states. It has also worked closely with the Organisation for Economic Co-operation and Development (OECD) on limiting how tied aid can be mixed with commercial credits to win big contracts in the developing world.

Since February 15, such aid can only be mixed in projects that are not commercially viable, and in the poorest of developing countries.

Country by country, exporters complain that cheap export credit insurance, and the practice of mixing aid with commercial loans, are used to snatch contracts by competitors.

The possibility of pooling aid funds is the longest-term aim of one of the two working parties – that headed by an official seconded from Coface, France's leading export credit agency. This group is concentrating on "non-marketable risk" – export finance that cannot be commercially supported, either because the project has a life of more than three years, or because it is in a poor or volatile country where the danger of default is high.

The first aim of the group is to harmonise "technical ground conditions" for providing export credit cover. This will include getting export credit agencies to agree on the percentage of the value of a contract they will insure, what kinds of risk they will insure, and for how many years cover will be provided.

The second aim will be to harmonise export credit insurance premium rates. At present these range widely, with Italy generally regarded as offering the cheapest rates (sometimes as low as 1 per cent), and the UK among the most expensive (with effective rates sometimes as high as 16 per cent.

The UK adjusts rates according to the specific country contract, linking the rate closely to an assessment of risk. In Germany, exporters have a single rate – which can be cheap in a risky country, but expensive when exporting to stable industrialised markets.

Stage three will aim to establish a "common cover policy", under which governments agree on what risk category different export markets fall into, adjusting premium rates accordingly. At present, many governments tinker with rates as part of their foreign or defence policies, pointing cheap credits at allies regardless of commercial risk.

"If the Maastricht Treaty [on European union] is completed, then it should make it easier to reach a common foreign trade policy," an EC official said. With this, and a "common cover policy" for developing countries in place, it would be a comparatively small step to pooling national aid funds centrally in the EC. Exporters from across the EC could then tap the common aid pool, regardless of which country is sponsoring a project.

"It would be too idealistic to over-estimate the speed of progress that is possible," an official said. "We have to move forward cautiously."

Jamaica to swear in new premier

By Canute James in Kingston

MR Percival Patterson, a 57-year-old, London-trained lawyer, will be sworn in today as the prime minister of Jamaica, succeeding Mr Michael Manley, who retired on Saturday because of ill health.

Mr Manley's retirement took effect soon after the ruling People's National party elected Mr Patterson as its president, giving him a margin of four votes to every one in support of the only other contender, Miss Portia Simpson, the labour and welfare minister. Miss Simpson had support in the rural and inner-city areas, with Mr Patterson being backed by the parliamentary party and the island's business community.

After his victory became clear, Miss Simpson claimed there had been irregularities in the voting, but said she would respect the result "in the interest of the party and the country". In accepting his election to the presidency of the PNP, Mr Patterson invited supporters of both factions to unite under his leadership.

The impact of the row on the unity of the government will be reflected in the composition of the cabinet Mr Patterson names this week. Mr Hugh Small, finance minister, who supported Miss Simpson's candidature, said he doubted he would be appointed to Mr Patterson's new cabinet.

The new prime minister has held several portfolios over the past 20 years, but left the cabinet under a cloud in January following allegations that, as finance minister, he had erred in granting a waiver of import duties to the local subsidiary of an oil company, headed by a member of the PNP executive.

He had come under intense pressure from factions in the ruling party and opposition, and from the public, to resign, and was omitted from the cabinet in a reshuffle by Mr Manley on New Year's Day.

His first big task will be to bring some stability to the economy.

Arab efforts to defuse Libya crisis near failure

By Tony Walker in Cairo

THE latest Arab League attempt to defuse the crisis over Libya's refusal to yield two men accused of bombing a US airliner appears near collapse after further Libyan statements at the weekend.

Mr Ibrahim Mohammed Beshari, the Libyan foreign minister, vowed yesterday that his country would not "surrender" to demands that it hand over its nationals for trial in the west.

A despondent Egyptian foreign minister, Mr Amr Moussa, said after a meeting with President Hosni Mubarak and Mr Beshari: "I see that things are difficult and are not progressing towards a breakthrough the way one would like."

The United Nations Security Council is due early this week to approve a resolution that would impose sanctions, including an arms and air embargo, against Libya over its refusal to hand over Libyans allegedly involved in the 1988 and 1989 bombings of US and French airliners in which a total of 441 people died.

The Arab League yesterday sent a letter to Mr Boutros Boutros Ghali, the UN secretary general, outlining its understanding of the Libyan position. League officials would not be drawn on its contents, but they expressed little optimism of an early resolution of the crisis.

Moderate Arab states, notably Egypt, have been trying for months to head off a looming confrontation with the west, fearing domestic troubles if Libya is subjected to UN-imposed penalties.

Last week, a compromise appeared to be in the making when Libya indicated it might be prepared to hand over the two suspects in the 1988 Pan Am bombing over Lockerbie, Scotland, to the Arab League which would have passed them to the UN secretary general.

But Tripoli balked, prompting speculation about serious differences in the Libyan regime between Colonel Muammer Gadaffi and his number two, Major Abdel-Salam Jalloud. Col Gadaffi is being portrayed as a voice of reason in the Egyptian press, while Maj Jalloud is depicted as the main obstacle to compromise.

Egyptians were furious last week after an Arab League committee led by its secretary general, Dr Esmat Abdel Meguid, was insulted when it went to Tripoli to discuss the crisis. Egypt was particularly incensed by a despatch carried by Jana, the Libyan news agency, which alleged that the Arab League committee was acting under pressure from the "Crusader West".

This week's expected Security Council resolution follows one agreed in January, demanding that Libya had over nationals involved in bringing down the two aircraft.

US and Scottish police have issued arrest warrants for the two Libyans suspected of the Lockerbie bombing. A French magistrate responsible for investigating terrorist crimes is seeking four Libyans for questioning.

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Intel files patent suit to block Cyrix challenge

By Louise Kehoe in San Francisco

INTEL, the largest US semiconductor maker, has pre-empted another challenge to its dominance of the market for personal computer microprocessors. It has filed a patent infringement suit against *Cyrix, a small Texas company*, that is today announcing its own version of one of Intel's widely-used microprocessors.

Anticipation of the Cyrix announcement fuelled a sharp decline in Intel's stock price last week.

Even before seeing the Cyrix chip, Intel filed a suit charging Cyrix with infringing four patents that protect Intel's microprocessor technology. Intel said its claims were based on information gleaned from financial analysts' comments.

"We do not believe that it is possible to produce a chip that is compatible with our 386 microprocessor without infringing our patents," said Mr Thomas Dunlap, Intel general counsel. Intel is seeking a preliminary injunction to prevent Cyrix from selling its microprocessor chip.

Until last year, Intel held a virtual monopoly in the market for the microprocessors that form the brains of IBM-compatible personal computers. Then Advanced Micro Devices (AMD) and Chips & Technologies, two Silicon Valley competitors, entered the field with their own versions of the Intel 386.

Intel has filed suit against all of its would-be competitors, but has yet to win an injunction to prevent them from selling the look-alike chips.

Intel is already involved in a legal dispute with Cyrix over the Texas company's earlier product, a version of Intel's 387 co-processor, a device that works alongside the 386 to speed mathematical calculations.

On Saturday, Mr Jerry Rogers, president of Cyrix, when informed of the new Intel suit, said the action represented a "frivolous lawsuit that amounts to legal harassment".

Venezuela oil chief appointed

By Joseph Mann in Caracas

VENEZUELAN President Carlos Andrés Pérez has appointed Mr Gustavo Roosen, a prominent business executive and minister of education since 1989, as president of the country's national oil company, Petroleos de Venezuela SA (PDVSA).

Mr Roosen, 47, replaces Mr Andres Sosa Pietri, who resigned last week.In his letter of resignation, Mr Sosa sharply criticised aspects of the government's petroleum policy.

The appointment ended weeks of speculation over who would get the post, which is of great importance in Venezuea. The company, which had gross sales revenues of $22.3bn last year, provides the government with most of its tax revenue and foreign exchange.

Mr Roosen, like Mr Sosa, comes from outside the industry. While he possesses excellent managerial credentials, Mr Roosen's appointment represents a rebuff to veteran oil industry executives who see their access to the company's top job cut off by presidential decision.

Media spotlight turned on to Clinton's rival

By George Graham in Washington

MR Jerry Brown, the former governor of California, has made hay with the travails of his rival for the Democratic presidential nomination, Mr Bill Clinton, quoting or misquoting every press investigation into Mr Clinton's record as governor of Arkansas and dubbing him the "scandal a week" candidate.

But Mr Brown's sudden rise to prominence after he narrowly defeated Mr Clinton in last week's Democratic primary in Connecticut has also turned the investigative spotlight on his own record.

The Washington Post reported that Mr Brown had accepted a $20,000-a-year board seat on a bio-medical company whose parent had to pay a $400,000 fine to settle charges that it had falsely promoted a drug as a treatment for the HIV virus and Mr Brown said he had telephoned a prominent congressman to intercede on the company's behalf.

The story not only turns back against Mr Brown the charges of influence-peddling that he has levelled at anyone within firing range, but also carries a double edge because of the prominence with which the Californian politician displays his sympathy with Aids victims, in the shape of a red ribbon in his buttonhole.

While the Washington Post report contains no evidence of any kind of wrong-doing or even ethically questionable conduct by Mr Brown, it is exactly the same kind of story that has dripped inexorably on Mr Clinton, eroding his apparent invincibility.

Mr Brown, however, continues to wage unabashed warfare against Mr Clinton in the run-up to tomorrow's Vermont primary and to the high-stakes primaries in New York, Wisconsin and Kansas on April 7.

But Mr Clinton still has 1,013 of the 4,288 delegates who will meet at the party's nominating convention in July committed to him, compared to only 152 for Mr Brown.

NEWS: INTERNATIONAL

Stoltenberg embroiled in tanks export scandal

Call for resignation of German defence chief

By Christopher Parkes in Bonn

THE second German arms export scandal in six months has led to calls for the sacking of Mr Gerhard Stoltenberg, defence minister, and has undermined the CDU's prospects in next Sunday's state election in Schleswig-Holstein.

Pressure from the opposition Social Democratic Party (SPD) grew after it became known that 15 Leopard 1 tanks had been shipped to Turkey last autumn in defiance of a parliamentary committee ban in place since last year. The minister was embroiled in a similar row late last year when armoured vehicles, labelled as farm machinery, were discovered in Hamburg docks on route to Israel.

News of the shipment emerged on Friday after the Bonn government suspended all military dealings with Turkey, its Nato partner, because German arms were being used against Kurdish communities.

Mr Stoltenberg, a close cabinet ally of Chancellor Helmut Kohl and former chairman of the CDU in Schleswig-Holstein, said at the weekend he was "disturbed" by the news, although refused to comment on the calls for his resignation.

His parliamentary state secretary, Mr Ottfried Hennig, has also come under heavy fire for allowing exports discipline to slip.

He is the party's leading candidate in the Schleswig-Holstein poll, standing against Mr Björn Engholm, chairman of the SPD and prime minister of the state.

The mood in the SPD, which took 54 per cent of the votes in the last state election in 1988 and was already clear favourite to maintain power after next week's vote, was bolstered by the disarray in Mr Kohl's government and the likely reinforcement of Mr Engholm's status as a leader.

Mr Engholm is the opposition candidate for the chancellor's post in the 1994 federal elections.

The CDU, meanwhile, is more concerned about the loss of face for Mr Kohl if, as the polls suggest, the CDU loses its absolute majority in the southern state of Baden-Württemberg, which also votes next weekend. The state is the last one in former western Germany where the conservatives rule alone.

CDU Bundestag members said at the weekend that it was unlikely that either Mr Stoltenberg or Mr Hennig would go before next week's election.

The chancellor is planning a cabinet shuffle later this year, and has promised several "new, young faces".

A German minister has called off a visit to Turkey in protest against the treatment of the Kurdish minority, according to the Sunday newspaper Bild am Sonntag, Reuter reports from Bonn. It said Mr Norbert Blüm, labour minister, had written to his Turkish counterpart, Mr Mehmet Moğultay, cancelling a visit scheduled for May.

Bild quoted Mr Blüm as saying in his letter no state ruled by law should punish civilians for the activities of terrorists, a reference to clashes between security forces and Kurdish separatists. No comment was immediately available from Mr Blüm's ministry.

Lombard warrior sets out to slay giants

A populist party is upsetting Italy's traditional voting pattern, writes Robert Graham

THE MESSAGE of the Lombard League is brash and combative.

The populist movement, certain to disrupt the traditional voting pattern in northern Italy in the April 5 general elections, has chosen as its symbol a 12th century Lombard warrior brandishing a sword. Every poster mixes demands for autonomy with defiance of the Christian Democrat-led government in Rome.

"They are all ruffians in Rome," says Mr Luigi Moretti, one of the League's two Euro-MPs and secretary for the Bergamo region. "We want to make the Christian Democrats die of fright in these elections," he adds, echoing the bellicose contempt of the Italian political establishment shown by the league's leader, Mr Umberto Bossi.

In an office above a pizzeria in Bergamo inaugurated a year ago, Mr Moretti and a small group of volunteers are preparing to deliver a shock to the Christian Democrats who have long dominated this rich northern industrial city. Volunteers such as Mr Francesco Bruletti, a marketing executive, have taken a month's leave to work free for the league.

The Bergamo office operates on a shoe-string budget, supplied by contributions and subscriptions from 12,000 local members each paying L70,000 (£32.50) a year. "The local media ignore us and we can afford little publicity. We have to rely on word of mouth and our message," says Mr Bruletti. "But we are well organised and confident of our support. This is not a movement dreamed up by university graduates – it comes from ordinary people."

Most of the activitists like Mr Bruletti have never been involved in politics before. They are fed up with being ruled by a distant, incompetent state apparatus from Rome which ignores local needs.

In Bergamo in the 1990 regional elections the league became the second largest party, with 26 per cent of the vote against the Christian Democrats' 39 per cent. Officials have set their sights on rivalling, if not overtaking, the Christian Democrats in next week's general elections. The movement just squeezed ahead of the Christian Democrats last year in municipal elections in neighbouring Brescia.

Throughout Italy's hard-working northern industrial belt in cities like Bergamo the League has emerged as a big new force and is certain to remove votes not just from the Christian Democrats but across the traditional party spectrum. Nationwide, it could get 10 per cent of the vote.

Although Mr Bossi, the League's 50-year-old leader, is being ignored by the national media, his abrasive, emotional speeches decrying corruption of the traditional parties and demanding greater regional autonomy have struck a chord among workers, the professional classes and small businessmen.

The league has even formed its own employers' organisation and its own union (the Milan taxi drivers are members *en bloc* and provide free one of their number as Mr Bossi's chauffeur).

Typical of Mr Bossi is a comment in a written interview for the FT. "The league has threatened a campaign of non-payment of taxes to show the state that those producing the nation's wealth are exasperated: that they will no longer agree to work for a political class which sustains its absolute power enriching and swelling the numbers of its clientele; that they will no longer work for a free-spending state which survives by devouring its own citizens like Saturn devouring his children."

The son of a textile worker who moved from a small northern town near Varese to Milan, Mr Bossi, like many of his generation, was the first to experience higher education and grow up with the industrialisation of the north. A poor student, he gravitated into local politics formally founding the "Autonomist Lombard League" in 1984. On this ticket he was elected a senator for Varese in the 1987 general elections.

The initial stamp of the league was distinctly "autonomist" with a platform of demands having parallels with that of the Scottish Nationalists' calls for greater independence from parliament in Westminster.

Mr Bossi encouraged the formation of "autonomist" leagues in other regions of the North – in Emiglia Romagna, Liguria, Piedmont, Tuscany and the Veneto. Together in February 1990 these formed with Lombardy the Northern League as a federal movement, and subsequently leagues have been added covering central Italy and the south.

Thus while the movement is popularly referred to as the Lombard League it consists of a number of associated autonomist groupings headed by Mr Bossi.

He is proposing a radical constitutional shake-up of Italy into three blocks – the North, Centre and South. "The league wants a federal constitution with a central parliament that co-ordinates the activities of the parliaments of the three [blocks] which have a degree of autonomy which will be modelled on the experience of the Swiss, American and German models. . . to avoid the current damaging experience of centralism."

The essential aim is to ensure that northern savings cease to finance the nation's huge public sector deficit, much of which goes on ill-controlled transfers to the south.

Its most seductive slogan is "further from Rome and closer to Europe". This underlines Mr Bossi's threat to found a republic of the north, linked to Europe but separate from the rest of Italy, if the Rome politicians fail to reform their ways.

Albanians vote in run-off polls

ALBANIANS voted yesterday in 11 run-off elections that the Democratic party, already assured of overall victory, hopes will bolster support in the once-Communist south of the nation, AP reports from Tirana.

State radio reported no incidents as voting proceeded in the run-off races, all in the south or centre of Europe's poorest country.

The Democrats captured 79 of 89 seats in first-round elections a week ago.

The Socialists, formerly called the Communists, won only six seats, in sharp contrast to a two-thirds majority in Albania's first free elections a year ago.

Four other seats went to smaller parties that could prove crucial to the Democrats' goal of unseating President Ramiz Alia, the successor to Stalinist dictator Enver Hoxha in 1985 and the last ex-Communist left in power.

Under Albania's complex electoral law, the Democrats seem likely to be two seats short of the two-thirds parliamentary majority needed to unseat Mr Alia or change the constitution, Mr Mirjin Behbi of the Central Electoral Commission said on Friday.

The Democrats are expected to win most of the 11 seats up for grabs in yesterday's direct vote. But they are unlikely to get many of the 40 seats to be distributed on a proportional basis, Mr Behbi said.

He predicted the Democrats would have 92 seats and the Socialists 38 seats, reflecting their 25.73 per cent share of the overall vote in March 22 voting.

Others in the 140-seat Parliament will be the Social Democrats with seven seats; the Greek minority-backed Defense of Human Rights, two seats, and the Republicans, one seat.

Dubcek heads Slovak Social Democrats

FORMER Communist leader Alexander Dubcek has been elected chairman of the Slovak Social Democratic party, the official news agency CSTK said yesterday, Reuter reports from Prague.

Mr Dubcek, 70, joined the Social Democrats only two weeks ago and was elected at a party congress in Bratislava on Saturday, CSTK said.

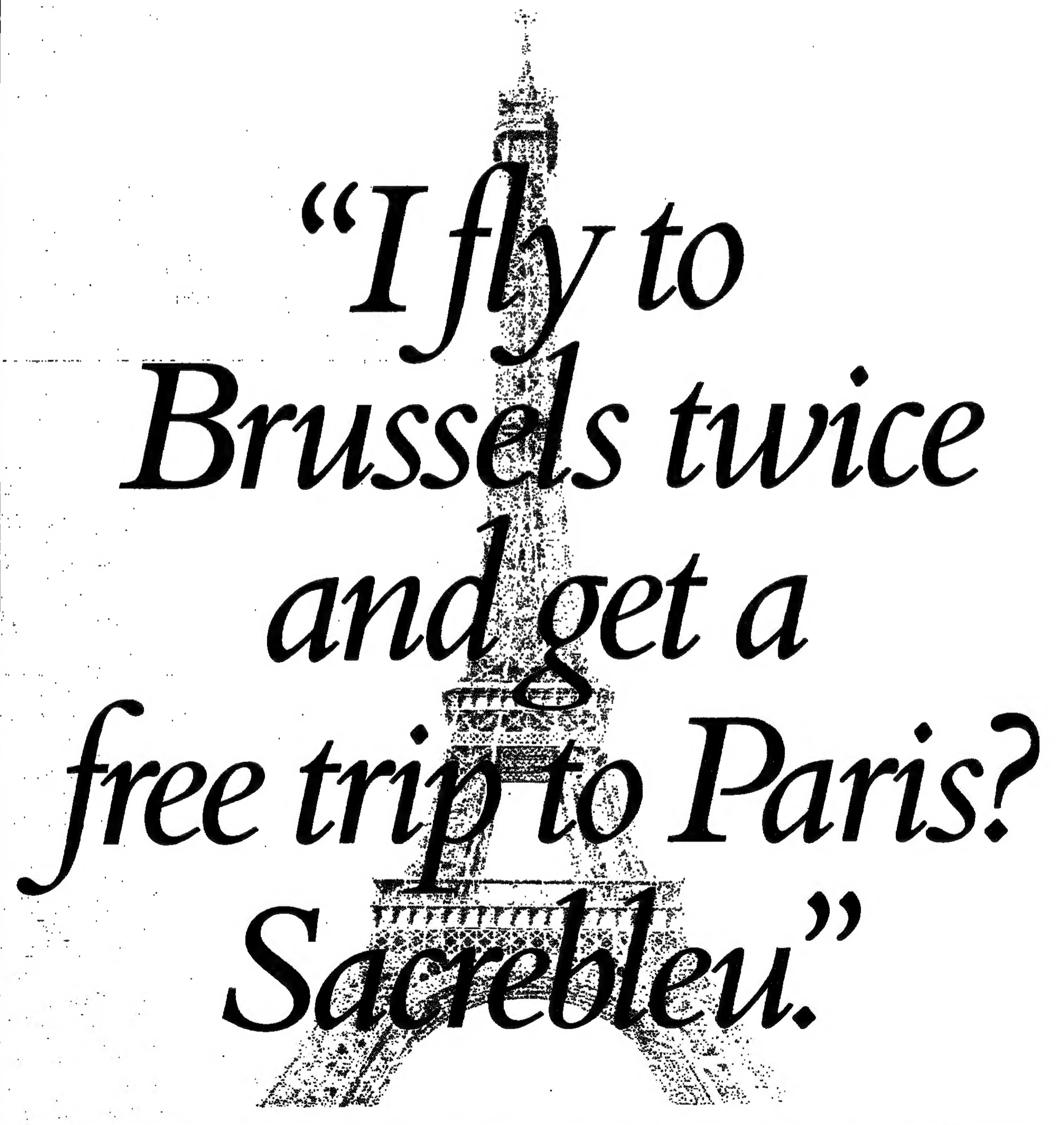
Living in disgrace and seclusion since his "Prague Spring" reforms were crushed in August 1968, he returned to public life only after the peaceful overthrow of communist rule in late 1989 as chairman of the Czechoslovak parliament.

Mr Dubcek told the congress the main planks of his party policy were to achieve an environmentally-oriented and socially just market economy.

"Our aim is a united Europe and a dignified place for Czechoslovakia in it," he said.

He favoured a common state for both Czechs and Slovaks.

Mr Dubcek was a co-founder of the Public Against Violence (VPN) movement in late 1989, a Slovak movement which helped overthrow Communist rule in Czechoslovakia.



NEWS: INTERNATIONAL

Attack feared after state of emergency declared

Ethnic clash looms in Moldova

By Leyla Boulton in Moscow

THE government of Moldova has declared a nationwide state of emergency to try to bring to heel an enclave of Russians and Ukrainians who have declared independence.

Mr Igor Smirnov, president of the self-proclaimed Trans-Dnestr republic, immediately responded by declaring a 10pm to 6am curfew and called on his forces, which include Cossack mercenaries, *to prepare for an attack*.

The state of emergency, declared at the weekend, provides for direct presidential rule through special local committees and empowers police and fledgling army units to take all necessary measures to disband and disarm illegal armies.

Ms Alina Demakova, a spokeswoman for the Trans-Dnestr government, said Moldova was "not yet ready for a fullout attack but was readying forces for one." She said the Moldovan government planned decisive action within 48 hours.

The Russian foreign ministry appealed to all parties to "act in accordance with *international law*", *avoid further* bloodshed and show respect for minorities.

Forty people have died in clashes between Moldovan and Trans-Dnestr forces over the past month. Ms Demakova said Trans-Dnestr was quiet yesterday although two of its guardsmen had been injured in overnight skirmishes.

Moldova's Popular Front, the opposition movement which wants reunification with Romania, expressed puzzlement at President Mircea Snegur's announcement of a state of emergency.

Ms Natalya Paskal, a Front spokeswoman, said she suspected the declaration could prove as ineffectual as a government ultimatum issued two weeks ago demanding that the Trans-Dnestr forces lay down their arms.

But she noted that it had come just in time to ban rallies planned by the Front yesterday to support the goal of reunification with Romania. The Trans-Dnestr republic, a sliver of industrialised territory on the left bank of the Dnestr River, does not want to live under Romanian rule and has also rejected legislation to make Romanian the republic's official language.

Ms Demakova, said the Russians and Ukrainians were prepared to remain part of Moldova if it was turned into a federal state but she said the government's refusal to accept such an arrangement meant it was heading towards unification with Romania.

Moldovan police with guns and grenades prepare to move up to the front line in Trans-Dniester last week

Fears rise in Bosnia despite truce

By Laura Silber in Belgrade

THREE PEOPLE were killed *yesterday* in Bosnia-Hercegovina despite a truce called by leaders of the central Yugoslav republic, amid fears *that the fighting* would engulf Bosnia's ethnically mixed population of 4.4m.

The ceasefire reached at the weekend by members of the republic's collective presidency calls for a buffer zone of about 500 yards to divide the warring sides in Bosanski Brod, northern Bosnia.

A joint commission comprising Moslems, Serbs and Croats – Bosnia's three main ethnic *groups* – as well as police and European Community monitors will arrive today to monitor the truce.

Dozens of people have been killed over the past week in mortar, artillery and gun-battles in and around Bosanski Brod. Both sides yesterday expressed doubts that the ceasefire would take hold.

Mr Anton Kljajic, a spokesman from the emergency council of Bosanski Brod, said by telephone yesterday that Serb snipers shot dead a Croat man and a Moslem man. Serbian media said one Serb was killed and several wounded in fresh clashes in a nearby village.

Each side has accused the other of launching the attacks in incidents which could not be independently confirmed.

Croatian and Serbian media also accuse each other of deploying tanks and massing forces *around Bosanski Brod*, whose population of 34,000 is 41 per cent Croat, 34 per cent Serb and 12 per cent Moslem.

The Serb-controlled federal army, which says it is remaining neutral in the conflict, at the weekend warned that it would retaliate if Croat forces continue to attack Bosnia. "The army will be forced to react decisively to any form of armed threat on the citizens and on their units," an army statement said.

Thousands of Croats and Serbs are fleeing Bosanski Brod and other ethnically mixed towns in Bosnia. Long queues of people yesterday in Bosanski Brod carrying blankets, pots and pans jammed the bridge over the River Sava, which marks Bosnia's northern frontier with Croatia.

The emergency council has issued an order banning men aged 18-55 from leaving the town.

Serbian media in Zvornik, 65 miles southeast of Bosanski Brod, at the weekend appealed for Serbs to remain in the town after reports that Moslem police had seized the local police station.

The fighting in Bosnia has sharply escalated since the begining of the month and will most likely hamper European Community-brokered peace talks.

Victory for reformists in Romania

By Virginia Marsh in Bucharest

THE REFORMIST wing within Romania's ruling party, the National Salvation Front (NSF), won an important political victory this weekend with the re-election of Mr Petre Roman as party leader.

Nearly two-thirds of *delegates* meeting in Bucharest for the party's annual convention voted in favour of Mr Roman and adopted his motion: "The future – today." The document, which espouses a western European-style social democracy, will form the basis of the party's political platform.

Addressing the delegates, Mr Roman said: "Today the party won because we showed we had a clear political line. This can lead us to victory in the election."

His supporters expressed relief that "neo-Communists" no longer dominated the party.

Mr Roman's re-election follows several weeks of open dispute in the NSF between his supporters and those favouring Mr Ion Iliescu, Romania's president. President Iliescu, one of the party's founders, is associated with the NSF's more reactionary faction.

Kravchuk adopts mantle of economic reform

Capitalism creeps into Kiev, says **Chrystia Freeland**

THE *shops of Kiev*, Ukraine's capital, are undergoing a quiet metamorphosis. Take the Hastronom Podil, in the heart of the old city. Beautifully packaged Austrian jams, juices and cakes are on sale alongside locally produced jugs of discoloured vegetables *topped with* lard. These new goods can be bought with coupons, the Ukrainian quasi-currency which is scheduled to entirely replace roubles next month.

Creeping capitalism at the consumer level received a boost last week, when for the first time, economic reform was pushed to the top of the Ukrainian political agenda. A fierce debate in a closed session of parliament obscured more than it revealed of the details of Ukraine's reform programme, but it had one important result. After nearly four months of official lethargy, the Ukrainian government, led by President Leonid Kravchuk, is now publicly committed to formulating an independent economic reform plan.

"The president has become a new man," said Mr Oleksandr Iemelianov, the architect of the economic programme discussed last week. "He supports radical economic reform."

Observers at least week's parliamentary session said the president threatened to replace foot-dragging cabinet ministers and overrule the parliament if it sought to block reform.

The overall theme of Mr Iemelianov's programme is, in his *own words, the realisation that* "apart from our flag and our trident, our independence is nothing. Although the centre no longer gives us orders, today the chief commandant has become the rouble."

Ukraine, like all of the former Soviet republics, is struggling to find a way to transform its state-dominated economy.

But everything in the economic reform package is contested and ambiguous. Mr Iemelianov's draft reforms were criticised at home as anti-market. He has since fleshed out the package in response to this criticism.

His latest proposals, which he hopes the president will sign today or tomorrow, call for rapid privatisation, a sharp reduction in the budget deficit, and tightening of government lending policies, further liberalisation of prices and the complete replacement of the rouble with the coupon – and all of this by the end of April.

In an unsigned policy paper, New Ukraine, a liberal political grouping with ambitions to spearhead Ukraine's economic reform, makes three key criticisms of the Iemelianov plan.

First, it argues that Ukrai*nian* banks are technically unprepared for the introduction of the coupon as the sole currency in the republic. Second, it charges that the rapid pace of privatisation proposed by Mr Iemelianov would allow the ex-Communist apparatchiks to grab the best property. Third, they *argue for* co-operation with Russia, Ukraine's main trading partner, as opposed to Mr Iemelianov's go-it-alone course.

Any market obstacles to implementing the reforms are compounded by a bitter power struggle in the Ukrainian leadership.

But fighting in the cabinet "shows that the political will for reform has finally developed," according to Mr Bohdan Krawchenko, a western adviser to the government. "I hope that when the dust settles, Ukraine will have a real, viable reform plan and a team able to implement it."

France seeks a cure for drug subsidies

The Glaxo controversy is an important test case, writes **William Dawkins** in Paris

THE EUROPEAN MARKET

LIKE governments across Europe, the French administration is fighting to curb the amount it spends every year on subsidising its citizens' consumption of pills and potions.

In the latest round in this battle, Mr Jean-Louis Bianco, France's social affairs minister, has just locked horns with Glaxo, one of Europe's largest and most aggressive drugs companies.

Mr Bianco has asked an independent panel to report by mid-May on the ethical, legal and medical acceptability of Glaxo's heavy promotion of Imigran, a migraine treatment which has not yet got government approval for sale in France. Glaxo says its negotia*tions with the government* are also stalled on price, where the UK company is insisting that it must be allowed to charge the same in France as elsewhere in Europe.

This is an important test case, say officials. The results will signal to other drug companies the government's thinking on how they market their new products in one of Europe's fastest growing and highest volume markets, despite the government's efforts to reduce its drugs bill.

Angered by the government's toughness, Glaxo insists that it is acting properly and has already threatened to reconsider its French investments, as has Merck, Sharpe and Dohme, the US pharmaceuticals giant.

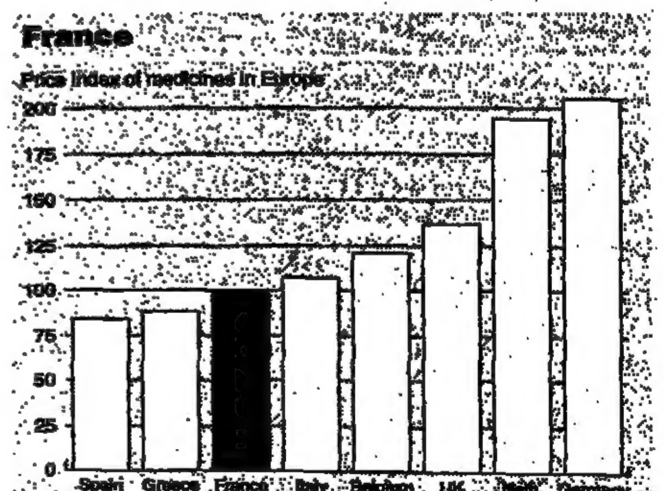
Politically, Glaxo has taken on the government at the worst moment. Mr Bianco is in no mood to compromise, just as the spring session of parliament, which opens on April 2, is due to give the final reading to wide-ranging reforms to cut drug companies' spending on promotion, in favour of research and development, and to reduce needless consumption of medicines. It is also an important part of the government's attempt to keep its social security deficit under control, down to a forecast FFr2.2bn (£226m) this year after a FFr15bn in 1991.

Imigran is a high priced drug, with a potential market *of more than FFr1bn in France* alone and $10bn worldwide, say analysts. It has already won approval in several other European markets, including Britain and the Netherlands.

But Mr Bianco's experts are not convinced that Imigran is worth the money, or that it is *as effective* as rival products. Accordingly, he is nettled at what he sees as Glaxo's attempt to whip up patient demand before he has made up his mind.

The outcome will be watched by the European pharmaceuticals industry generally. Glaxo's prices have already run into trouble with the Danish government, which has asked the European Commission to examine whether it is illicitly abusing a dominant market position. Now its marketing methods are under scrutiny too.

For Glaxo, the stakes are high. It needs to prove to investors that it has successors to its Zantac ulcer drug, the world's best selling pharmaceutical, which accounts for nearly half of Glaxo's sales but faces slowing growth. It also needs to resist pressure to reduce prices for its innovative drugs in France, so as to avoid the risk of having to compete against cheap parallel imports to Britain.



The stakes are high for the industry. Drugs' companies across Europe face the challenge of making enough profit to cover the rising research bills needed to keep up with the fast pace of innovation. Accordingly, the prices they are allowed to charge by governments, which – as in France – are often also the drug companies' main customers, are crucial. So are the permitted methods of promotion.

France is an especially sensitive case. For its citizens swallow more medicine than most other Europeans; $136 worth per head annually as against the average Briton's $65, according to a recent survey. It is unlikely that they end up twice as healthy, mourns one official.

One factor is the government's traditional but changing policy of keeping prices relatively low, so that spending on medicines is growing at 10 per cent annually.

Another may be the intense competition for patients in an *overcrowded* medical profession. "A popular doctor is one who is liberal with his prescriptions, who knows all the latest drugs and *gives large* supplies of them," explains Mr Theodore Zeldin in his book The French. Many general practitioners confess they do not know what ails three quarters of their patients, but they prescribe lots of drugs to show they have something to say, he argues. The armfuls of medicines showered on my own family bear him out.

So the government has *seized on what is* as much an issue of national behaviour as budget management. It is trying to curb needless spending on medicines on two fronts.

Firstly, the bill before this coming parliamentary session will tighten up the price fixing regime and could lead to higher prices for some products.

A new national medical agency will decide prices across the whole range of a group's products, rather than by individual drug as before. Companies with high research budgets – spent in France – will be allowed to charge more *to help recoup those costs*.

The second front on which the government is acting is in its dealings with individual companies. Here Glaxo is not the only one to have come under the spotlight.

Lipha, the French arm of E. Merck of Germany, is smarting *after having* been *told* by the government last week it must abandon a joint marketing agreement with Pfizer of the US, for Amlodipine, a treatment for hypertension.

Foreign owned companies privately complain that the government is discriminating in favour of French producers. But even the French phramaceuticals industry association, Snip, is worried.

Mr Bernard Mesuré, Snip's president, fears the pharmaceutical bill's attempt to limit the growth of reimbursable drugs will *hold back his* industry's development, as will the blockage on joint marketing. He warns: "If collaboration is prevented, we will have no chance of catching up our foreign competitors and France could simply become an area for the distribution of imported medicines." The government appears to have decided to put the nation's financial and physical health first.

NEWS: INTERNATIONAL

Kashmiri police set to block militants' march

By Farhan Bokhari in Muzaffarabad

HUNDREDS of police and para-military troops were on alert yesterday in the state capital, Muzaffarabad, in Pakistani-controlled Kashmir, as security was tightened ahead of a today's planned march by militants to cross a disputed border with India.

The authorities intensified their search for the march leaders at the weekend and cut some telephone links. A special law was introduced prohibiting public gatherings of more than four people.

While militants vowed to press ahead with the march, government officials were confident the turnout would be low. During a similar march last month at least a dozen people were killed and many were injured after police charged at demonstrators trying to reach the border.

A similar march is planned by militants from the Indian side of Kashmir in an effort to cross the border into Pakistan, but officials believe the heavy presence of Indian troops is unlikely to allow that.

Meanwhile representatives of the militants said they were concerned that the turnout would be low due to the Islamic fasting month of Ramadhan.

Moreover, a goverment crackdown since last Wednesday has forced many of the march's leaders to go into hiding. Mr Amanullah Khan, chairman of the Jammu Kashmir Liberation Front (JKLF), the leading organisation which called the march, is still in detention at a unknown location in Pakistan since his arrest last week.

The prime minister of Pakistani-ruled Kashmir, Mr Sardar Abdul Qayyum Khan, said that none of the militant leaders would be allowed to leave Muzaffarabad. Militants leaving other cities to go to the border would also be stopped, he added.

Mr Qayyum defended his goverment's position on the Kashmiri right to self-determination leading to accession with Pakistan. He said: "The overwhelming majority of Kashmiris want accession to Pakistan. Our lifeline depends on Pakistan."

This has emerged as one of the most controversial differences between the JKLF and the position adopted by the government of Pakistan and Kashmir.

A day earlier Mr Rajaz Muzaffar, acting head of the JKLF, who plans to lead today's march, said: "In Indian-held Kashmir, Mr Saxena, the governor, has pronounced that he will stop the march of the JKLF. In Muzaffarabad Abdul Qayyum has announced the same. What is the difference between *Saxena and Abdul Qayyum*?"

India and Pakistan have fought three wars on the disputed division of Kashmir and most observers fear that there could be another conflict as long as the dispute remains unresolved. Pakistan claims that the state should have been allowed to join it at the time of independence from Britain in 1947, whereas India rejects that position.

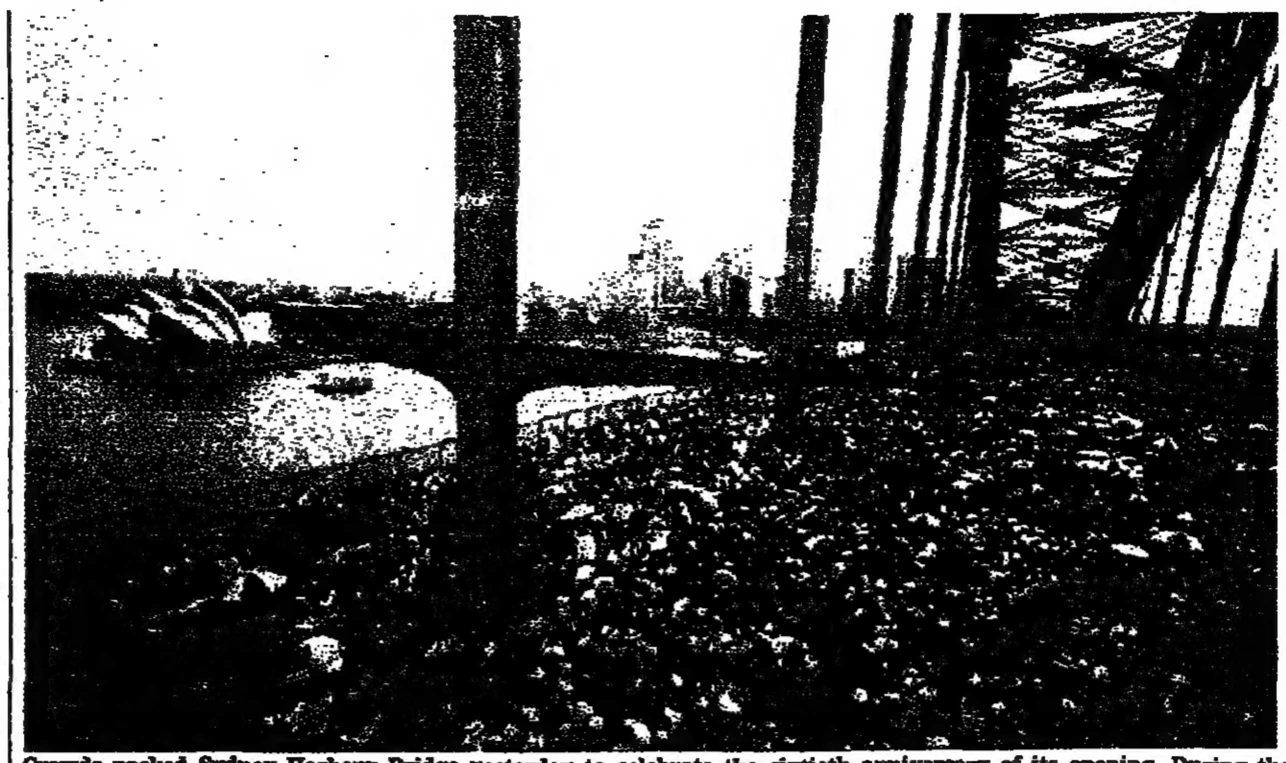
Pakistan has traditionally favoured a plebiscite for the Kashmiri people, giving them the choice to join India or Pakistan. As the region has a Moslem majority, Pakistani authorities are convinced the choice would favour Pakistan.

But that stand is at odds with the position adopted by the JKLF militants. They demand a "third option" – the right to become independent, without being tied to either India or Pakistan.

While their view is officially rejected by the government, it is finding gradually getting some recognition.

Ms Shireen Mazari, a leading defence studies expert, says: "The issue of an independent Kashmir has to be thought about," adding: "Whether we like it or not, that is very much a demand coming from certain quarters who are after all fighting the Indian forces."

The government is also concerned that restraining the march would make it difficult *for it to maintain a public* image of criticising human rights violations in Indian-controlled Kashmir.



Crowds packed Sydney Harbour Bridge yesterday to celebrate the sixtieth anniversary of its opening. During the three-hour closure to traffic, people were shoulder to shoulder from the north to the south approaches of the bridge

Japanese by-election gives boost to LDP

By Steven Butler in Tokyo

JAPAN'S ruling Liberal Democratic Party yesterday won two parliamentary seats in a hard-fought by-election contest in Gunma Prefecture, a rural constituency to the north-west of Tokyo.

The LDP's victory in the lower-house by-election comes *after two consecutive losses* in by-elections for the upper house of the Diet (parliament) earlier this year.

Those losses were sharp setbacks for Mr Kiichi Miyazawa, the prime minister, and his scandal-ridden government.

The by-elections are an important barometer of voter sentiment ahead of elections in July for the upper house. Many observers had all but written off the LDP's chances of *regaining its majority* in the upper house.

Preliminary results last night put the two LDP candidates ahead by a convincing margin.

It was the turn of the Socialists, the largest opposition party, for embarrassment. The party has also been plagued by scandal recently and voters vented their anger against Mrs Toshie Sunaga, widow of the former representative from the district.

The LDP victory boosts by a single vote the party's majority in the lower house of the diet (parliament).

More importantly, it could serve to raise morale in advance of the upper house elections. The LDP's inability to command a majority in the upper house has made it more difficult to push through controversial legislation.

Mr Miyazawa's popularity has dropped steadily since he took office last November. A poll published last week put his approval rating at just 26.5 per cent, compared to 55.7 per cent four months ago.

Philippines plans more state sell-offs

By Jose Galang in Manila

THE Philippine government plans to auction off a majority stake in two more large state groups – National Steel Corporation and Duty-Free Philippines.

This follows the success of its recent privatisation projects, involving Philippine Airlines (PAL) and Philippine National Bank.

Mr Jesus Estanislao, the finance secretary, disclosed that the government planned to sell 51 per cent of National Steel Corporation and Duty-Free Philippines before the administration of President Corazon Aquino ends its term of office on June 30.

An estimated 4bn pesos (£86m) could be generated from the sale of National Steel, which is controlled by the state National Development Company. Another 1bn pesos could be generated from Duty-Free Philippines.

The possibility of selling off Manila Hotel is also being considered, according to Mr Estanislao. The five-star hotel is owned by the Government Service Insurance System, a state-run retirement and welfare fund for public-sector employees.

The government last week turned over majority ownership of PAL to PR Holdings, a consortium of local business groups.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.0	99.4	77.1
1987	105.6	100.7	104.0	96.7	64.7
1988	109.9	103.2	107.0	98.1	59.9
1989	115.2	108.5	110.0	98.9	63.0
1990	121.5	113.9	114.0	100.9	58.6
1991	126.6	116.3	117.0	103.5	
1st qtr.1991	5.3	3.5	3.8	3.3	52.7
2nd qtr.1991	4.8	3.4	2.9	2.7	
3rd qtr.1991	3.9	1.9	3.2	2.6	
4th qtr.1991	3.0	−0.2	2.9	1.7	
March 1991	4.9	3.2	2.7	3.3	n.a.
April	4.9	3.3	2.7	2.5	n.a.
May	5.0	3.5	3.5	3.0	n.a.
June	4.7	3.5	2.6	2.8	n.a.
July	4.4	2.8	3.5	2.5	n.a.
August	3.8	2.0	3.5	2.9	n.a.
September	3.4	0.8	2.5	2.5	n.a.
October	2.9	−0.1	2.8	3.0	n.a.
November	3.0	−0.5	3.5	1.8	n.a.
December	3.1	−0.1	2.6	0.4	n.a.
January 1992	2.6	-0.5	2.6	0.4	n.a.
February	2.6	0.4			n.a.

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.8	95.3	101.4	103.3	125.7
1987	101.2	92.5	103.1	100.6	128.9
1988	102.2	92.3	107.5	98.2	137.4
1989	105.0	94.2	114.0	98.1	131.3
1990	108.2	95.7	120.1	98.2	116.1
1991	111.8	97.3	124.4	101.7	
1st qtr.1991	3.6	2.8	3.8	1.3	118.0
2nd qtr.1991	3.1	2.3	4.3	3.0	
3rd qtr.1991	3.3	1.7	3.3	4.0	
4th qtr.1991	3.2	0.0	3.2	6.0	
March 1991	3.4	2.6	4.1	3.0	n.a.
April	3.0	2.4	4.0	3.0	n.a.
May	3.0	2.4	4.0	2.0	n.a.
June	3.3	2.2	4.6	4.0	n.a.
July	3.4	2.0	1.9	3.0	n.a.
August	3.5	1.9	6.5	5.0	n.a.
September	3.0	1.1	2.8	4.0	n.a.
October	3.1	0.3	2.8	6.1	n.a.
November	3.6	−0.1	2.7	5.0	n.a.
December	3.0	−0.1	3.5	5.9	n.a.
January 1992	2.0	−0.6	2.7		n.a.
February	2.2				n.a.

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	98.9	97.5	104.0	104.0	111.3
1987	100.1	95.1	108.0	107.0	126.0
1988	101.4	96.2	113.0	107.0	126.2
1989	104.2	98.3	117.0	108.0	122.6
1990	107.0	101.0	124.0	110.0	126.6
1991	110.7	103.4	132.0	115.0	
1st qtr.1991	2.7	2.1	n.a.	3.1	124.2
2nd qtr.1991	3.1	2.2	n.a.	3.0	
3rd qtr.1991	4.1	2.8	n.a.	4.6	
4th qtr.1991	4.0	2.4	n.a.	6.6	
March 1991	2.5	1.8	6.7	3.7	n.a.
April	2.8	2.2	–	0.9	n.a.
May	3.0	2.2	–	4.4	n.a.
June	3.5	2.3	6.4	3.6	n.a.
July	4.4	3.8	–	1.8	n.a.
August	4.1	2.7	–	6.4	n.a.
September	3.9	2.6	6.4	5.5	n.a.
October	3.5	2.3	–	5.5	n.a.
November	4.2	2.5	–	4.5	n.a.
December	4.2	2.8	6.3	9.9	n.a.
January 1992	4.0	1.6	–		n.a.
February	4.3	2.0	–		n.a.

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.5	101.9
1987	105.9	97.8	107.8	103.8	102.1
1988	108.8	102.8	111.1	104.3	99.3
1989	112.6	108.4	115.4	106.5	95.8
1990	116.4	107.1	120.6		100.6
1991	120.0	105.8			
1st qtr.1991	3.4	0.7	n.a.	4.6	101.3
2nd qtr.1991	3.2	−0.7	n.a.		
3rd qtr.1991	3.0	−1.5	n.a.		
4th qtr.1991	2.9	-5.6			
March 1991	3.2	n.a.	4.6	n.a.	n.a.
April	3.2	n.a.	–	n.a.	n.a.
May	3.2	n.a.	–	n.a.	n.a.
June	3.3	n.a.	4.2	n.a.	n.a.
July	3.4	n.a.	–	n.a.	n.a.
August	3.0	n.a.	–	n.a.	n.a.
September	2.6	n.a.	4.3	n.a.	n.a.
October	2.5	n.a.	–	n.a.	n.a.
November	3.0	n.a.	–	n.a.	n.a.
December	3.1	n.a.		n.a.	n.a.
January 1992	2.9	n.a.		n.a.	n.a.
February	3.0	n.a.		n.a.	n.a.

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.6	101.4
1987	111.0	103.2	111.6	105.6	102.5
1988	116.5	106.8	118.4	109.7	101.9
1989	124.2	113.1	125.6	112.2	109.2
1990	131.6	117.8	134.7	120.1	117.2
1991	140.3	121.7	147.9		
1st qtr.1991	6.6	4.2	8.1	7.5	118.4
2nd qtr.1991	6.8	3.9	9.8	11.6	
3rd qtr.1991	6.4	3.1	10.7		
4th qtr.1991	6.1	2.1	10.6		
March 1991	6.6	4.2	8.1	n.a.	n.a.
April	6.7	4.0	8.5	n.a.	n.a.
May	6.8	3.8	10.4	n.a.	n.a.
June	6.8	3.8	10.3	n.a.	n.a.
July	6.7	3.8	10.4	n.a.	n.a.
August	6.3	2.9	10.9	n.a.	n.a.
September	6.2	2.6	10.8	n.a.	n.a.
October	6.1	2.2	10.8	n.a.	n.a.
November	6.2	2.3	10.7	n.a.	n.a.
December	6.0	1.9	10.4	n.a.	n.a.
January 1992	6.1			n.a.	n.a.
February	5.3			n.a.	n.a.

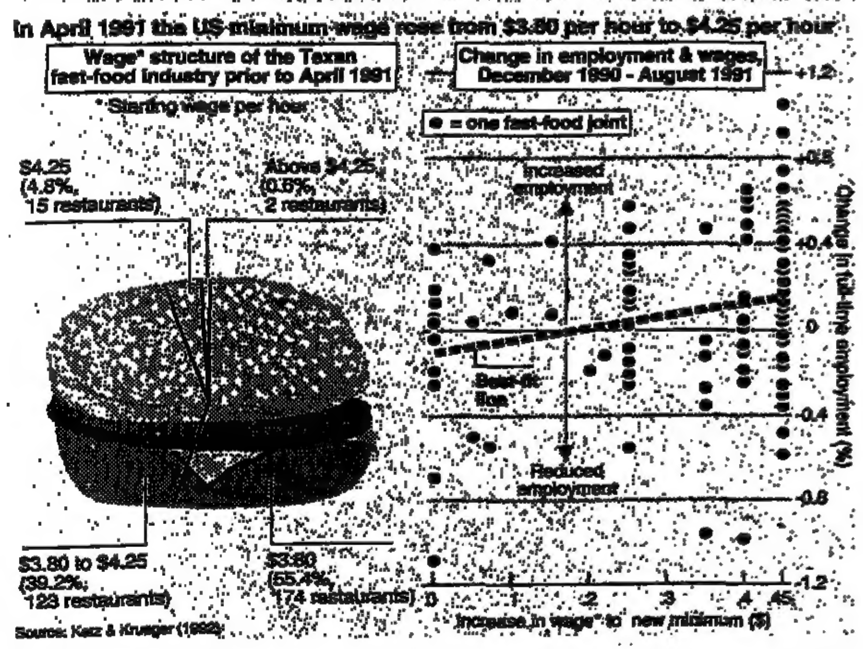
UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	104.3	107.7	104.5	92.9
1987	107.7	108.3	116.3	105.9	90.6
1988	113.0	113.2	126.2	108.9	96.8
1989	121.8	119.0	137.2	113.8	95.0
1990	133.3	126.0	150.1	123.4	98.3
1991	141.2	133.0	162.4	133.5	
1st qtr.1991	8.7	6.1	8.9	10.6	107.1
2nd qtr.1991	6.0	5.9	8.5	10.6	
3rd qtr.1991	4.8	5.5	7.8	6.8	
4th qtr.1991	4.2	5.0	7.8	4.8	
1991 March	8.2	6.1	8.0	10.3	n.a.
April	6.4	6.2	9.2	12.4	n.a.
May	5.8	5.9	8.3	10.7	n.a.
June	5.8	5.7	8.0	8.7	n.a.
July	5.5	5.7	7.6	6.8	n.a.
August	4.7	5.5	8.3	7.7	n.a.
September	4.1	5.4	7.5	6.0	n.a.
October	3.7	5.0	8.3	6.2	n.a.
November	4.3	5.1	7.8	3.8	n.a.
December	4.5	4.8	7.4	4.5	n.a.
1992 January	4.1	4.4		5.7	n.a.
February	4.1	4.4			n.a.

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

Wages & employment in Texan fast-food restaurants

In April 1991 the US minimum wage rose from $3.80 per hour to $4.25 per hour



Source: Katz & Krueger (1992)

Higher minimum wage, more hamburger-flippers

A MINIMUM wage is a convenient and effortless way for a left-of-centre government to appear to be doing something about the problems of poverty, public sector pay and the growth of unskilled employment. It is also largely ineffective at solving any of them. But Labour's proposed minimum wage would only be positively harmful if, as the Tories claim, it will reduce employment. The recent international evidence is surprisingly mixed.

There are many estimates of the potential employment cost of Labour's minimum wage. Most of them are based on model simulations of the UK economy. All of them are, at best, semi-educated guesses; and probably not worth the effort. No-one knows whether, or how, introducing a statutory minimum wage would affect unskilled wages and employment.

International evidence is a better source of clues on the likely effects of a UK minimum wage. The US, in particular, also has a large and highly competitive service sector employing many women and young people at relatively low wages. The federal government has increased the statutory minimum wage twice in the past two years, most recently in April 1991.

Most US studies of the effects of the minimum wage over the past few decades have found a moderately negative impact on employment, mainly among young people. A recent study of the effect of extending the mainland minimum wage to Puerto Rico in 1974 found a more dramatic employment effect. By 1980 the federal *minimum wage was 75 per cent of the* average wage in Puerto Rico's manufacturing industry compared to 43 per cent on the mainland. Its unemployment rate rose from 11.3 per cent to 23.4 per cent between 1974 and 1983, of which over one third is estimated to be a direct result of the rise in the minimum wage.

Yet a number of recent empirical studies of the effect of last year's rise in the US minimum wage fail to support this traditional view. One of the most careful, directed by Mr Lawrence Katz and Mr Alan Krueger of Harvard and Princeton Universities, surveyed the wage and employment practices of 314 Burger King, Wendy's and Kentucky Fried Chicken restaurants in Texas in August 1991. A third of them had also been surveyed the previous December, before the higher federal minimum wage came into effect in April. Over half of the restaurants had to raise the lowest wage they paid by the full 45 cent increase in the minimum wage. Only 5 per cent of restaurants were already paying more than the new minimum.

The survey directly contradicts the conventional view that raising the minimum wage prices people out of jobs. On average, the restaurants that had to increase their wages by more tended also to have a larger increase in employment, as the right-hand chart shows. Each dot signifies one restaurant's growth of wages and full-time employment. There are many outliers; but the upward sloping "best-fit" line between the dots indicates a positive, and statistically significant, relationship between higher mandated wage growth and higher employment. A 10 per cent wage increase is predicted to raise relative full-time employment by 25 per cent.

The survey does not suggest that raising the minimum wage increases unemployment, at least among hamburger-flippers. One explanation is that fast-food restaurants can impose below-market wages on their existing employees but have to raise them to market rates in order to attract new employees. Only when the government mandates this general wage increase does expansion become profitable. But the result *is not more skilled employment*, as Labour would have us believe. Moreover, the same argument would not apply to internationally competitive industries; a similar study of textile companies could well give the more conventional result. But the US evidence does counsel against confident empirical generalisations.

Edward Balls

"The effect of the minimum wage on the fast food industry." NBER working paper 3997; 1050 Massachusetts Avenue, Cambridge MA 02138, USA.

ELECTION 1992

Labour candidates want focus kept on NHS

By Ivo Dawnay and Ivor Owen

LABOUR parliamentary candidates want the party leadership to keep the future of the National Health Service at the top of its election agenda in spite of last week's row over the controversial election broadcast.

There was a strong feeling that the row over the Jennifer Bennett case had distracted from Labour's pledge of an extra £1bn NHS spending and its warning about a "two-tier" health system, but all the candidates questioned believed that the future of the NHS must retain a high profile.

Mild disappointment that Labour had not moved further ahead in the opinion polls was tempered with broad satisfaction at the campaign so far.

Candidates and officials appeared generally satisfied by the performance of Mr Neil Kinnock, the Labour leader, in his ITV interview with Brian Walden yesterday. Mr Kinnock faces what could be a tougher test tonight, when he is questioned by Jonathan Dimbleby for BBC1's Panorama. To round off a hard week of TV interviews, the Labour leader is interrogated by Sir Robin Day on ITV on Thursday.

Experienced Labour candidates yesterday remarked on the slow start to the Conservative campaign. "It may be that their activists are less enthusiastic because Mrs Thatcher has gone," ventured Mr Alan Meale, who as candidate for Mansfield defends Labour's smallest majority, just 56 votes.

Ms Clare Short, candidate for the safe seat of Birmingham Ladywood, expressed concern about the lack of a Tory presence. After campaigning in the nearby constituency of Birmingham Yardley, where the Liberal Democrats are challenging hard, she said Labour would appreciate more of a fight.

Ms Short admitted that the Bennett case had probably helped the Liberal Democrats as both main parties suffered a backlash to the bickering. However, she added that regional polling suggested Labour was doing "slightly better" than the national polls suggested.

A recent convert to proportional representation, she said she would like to see more emphasis in London on Labour's programme of constitutional reforms. "We have got a very radical agenda, people don't realise what a strong package it is."

In London, officials brushed aside the weekend polls, arguing that it may take a little longer for the impact of the health issue to show through. They said they expected Mr Neil Kinnock's ratings to improve as the election continued.

As Labour launched its package of measures for women yesterday, candidates reported that the number of female volunteers working in the constituencies had increased markedly over 1987.

Mr Robert Sheldon, seeking re-election as MP for Ashton-under-Lyne, said unemployment and the closing of factories were the main issues being raised in his constituency. There had been no reference to the controversial broadcast.

Fiery leftists' ardour is dampened

By Ralph Atkins

THE DRIZZLE is turning to a downpour in Derby. About 60 mostly elderly voters have forsaken television's Inspector Morse to sit on red plastic chairs at Murray Park Community School.

Before them, Michael Meacher, Labour's social security spokesman, is hurling hatred at the government. His subject is the poor. Tall and dark-haired, his slight lisp makes him appear to spit as he vents anger. He is regarded as among the most leftwing of Labour's shadow cabinet. He is not telegenic or lovable: he is too much the old fashioned socialist to be given a high profile by national strategists.

"From the scale of greed, of selfishness and materialism for which the Tories stand, these people have drawn a blank," he says. The ending of the earnings link for state pensions? "Frankly it puts the Maxwell robberies into a kind of kid's play."

He derides as a "searing indictment" the lot of those on income support. "It is now for them a more spartan regime than it is in prison," he says. "I'm sick and tired of hearing people on six-figure salaries saying there isn't the money to help those who spend in a year what they spend in a week."

The audience listens politely. Beside Meacher sits Margaret Beckett, Labour candidate in Derby South and the serenely tough shadow chief secretary to the Treasury.

Her effect is to control what Meacher says. He jokes about being "squeaky clean" in his spending pledges. It is like a Howitzer firing blanks.

Other flammable socialists in the shadow cabinet have been sidelined. Frank Dobson, energy spokesman, is scarcely seen on television.

Transport spokesman John Prescott's bilious contempt of the government has been redirected. He promises new schemes but says the finance will come from the private sector.

A reporter at a press conference asks if this is the future of socialism? "I've no worry about socialism getting its money from wherever it comes," pants Prescott.

Conservatives slow to praise central effort

By Alison Smith

TORY candidates are drawing heavily on reserves of determined optimism as the campaign enters its last full week.

While looking for a fresh start, there was not much praise for the efforts from Conservative Central Office after the campaign's faltering start and lacklustre continuation.

Sir Marcus Fox, a vice-chairman of the party's 1922 backbench committee, acknowledged that people felt Labour had dictated the agenda for the first two weeks. Mr John Bowis, defending a slim majority in Battersea, south London, said that in the first week the impact of the national campaign was "zilch", though the position improved last week.

"We're fighting a local campaign, the national campaign is entirely outside our control," was the less-than-enthusiastic message from Mr Tim Devlin, defending a majority of less than 1,000 in Stockton South.

Privately, the mood is more outspoken. "I go out campaigning in the morning, and I have a good time," says one Tory in a marginal seat. "I come back in the evening and watch the news and go to bed depressed by the incompetence."

Particular scorn is reserved for the low-key "Meet John Major" sessions with between 200 and 300 invited supporters. These are seen as wasting the opportunity for a large-scale rally with "razzmatazz".

But the Tories seem cheered by the impact of Labour's health broadcast. Some said dislike of Labour's tactics had hardened traditional Tory supporters, and increased the number of volunteers and requests for posters. "It's done us some good among the elderly C2s in particular," said one candidate.

There were clear signs of relief over the leadership's change of tactics towards positive campaigning signalled over the weekend. "We've got to turn positive – that's what wins elections," Mr Jacques Arnold, defending Gravesham, in Kent, commented yesterday.

Candidates had different ideas about what the thrust of that positive message should be, though there was some agreement that having found much of the party's core vote holding up, the main effort should now be to win over the floating voters.

Mr Bowis said the message should be that lower taxes were the way to stimulate the economy, enabling more to be spent on public services. Mr Arnold said the emphasis should be on "people power" and the government's education and NHS reforms.

Others would like to see the debate turn to Europe, where the Tories could corner the market in Euro-scepticism. Many would like the leadership to concentrate on the impact of Labour's plan for a national minimum wage. "We must appeal to the nine out of 10 people in jobs," one Tory pragmatist said.

Pushing at the voters' open door

By Paul Cheeseright, Midlands Correspondent

RED rose carefully adjusted in mackintosh lapel, Roy Hattersley was ready for a routine canvass in his own political backyard.

Not many Labour party workers around. Not a great deal of point in Birmingham Sparkbrook: safe Labour since Mr Hattersley won it in 1964. The workers were in adjacent Conservative marginals.

But there are 80 people on the electoral roll at the Trinity Centre, a shelter for the homeless and unemployed. The evening was not a good time to visit, as the shelter official made clear. Retreat was blocked by a resident. "You Conservative lunatic," he greeted the deputy leader of the Labour party. "I'm an alcoholic," he declared to the world at large. To Mr Hattersley he confided: "This is not a good place to be. Labour wouldn't have this sort of place."

Certainly it would not from choice. But Sparkbrook needs it. The constituency, just off Birmingham's city centre, has nearly 1,000 homeless families, and unemployment is around 30 per cent.

Mr Hattersley moved on to streets of houses constructed for Victorian artisans. "I'm Roy Hattersley, your Labour candidate, may I count . . . " – the standard appeal. It was like pushing an open door. "You've voted for me seven times? Thank you very much indeed."

He was among the Asian-origin population of Sparkbrook. Two of the three wards in the constituency have an ethnic-minority population of more than 50 per cent. The West Indians have been and largely moved on. Ugandan Asians came in the 1970s, Kashmiris in the 1980s. Islam is the main religion.

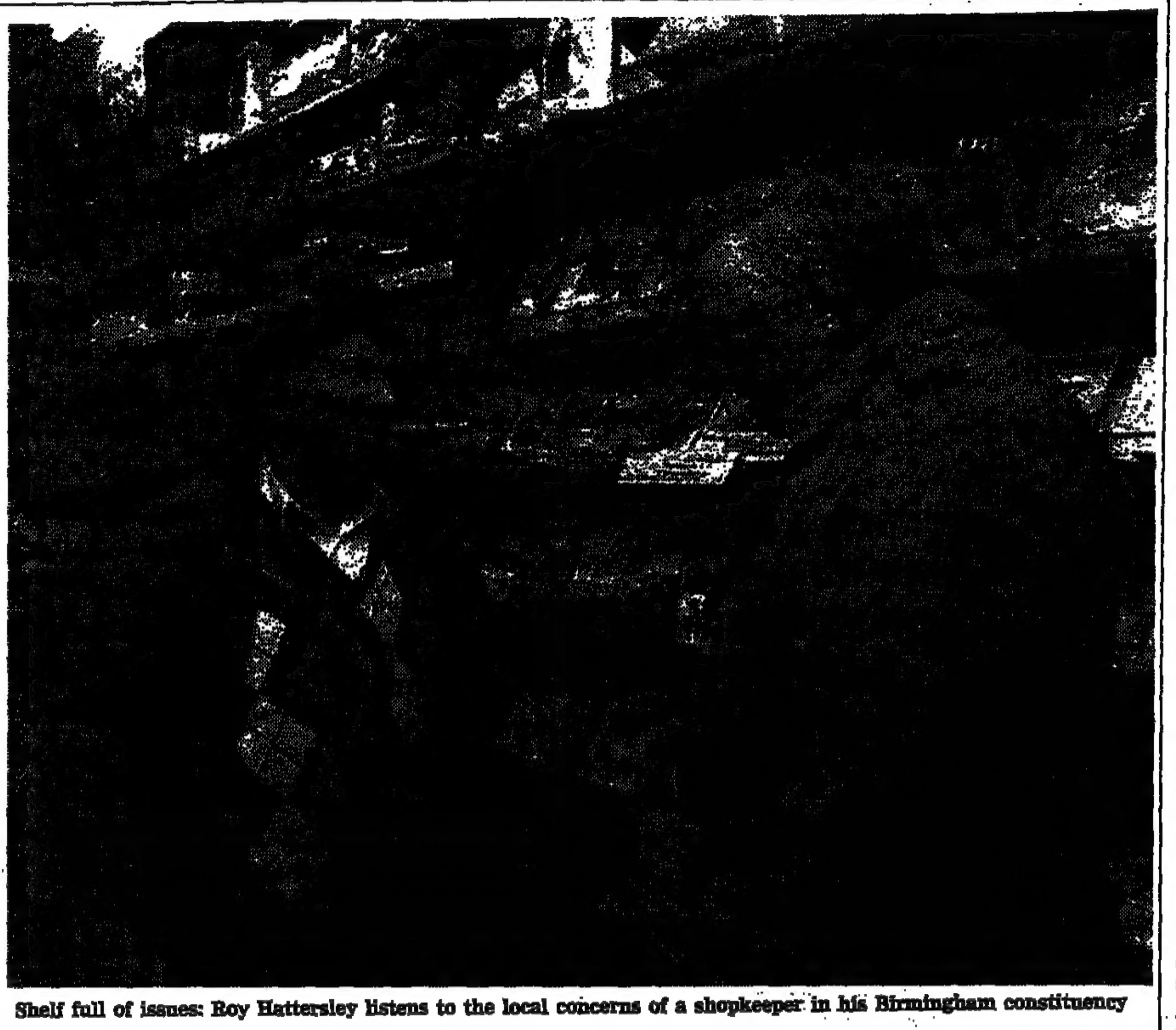
Despite the fact that Asian names are starting to appear on the lists of Conservative candidates, the ethnic vote largely belongs to Mr Hattersley. "There is a certain air of 'why is he asking the question?'" Mr Hattersley remarked after he had received another assurance of support.

By this time his canvass had turned into something of an evening out.

He had his knights of the realm with him, Mr Dick Knowles and Mr Stan Yapp: veteran local politicians who work the constituency for him and preserve their local base. But he had also collected a posse of children, who followed his every move.

The cavalcade ran into Mrs Cherrill Burton, vice-chair of the Sparkhill Residents Association. "The last time I saw you was four years ago," she complained.

Mr Hattersley knows the problems of deprivation in Sparkbrook. "There aren't special tailor-made policies. This area wants what Labour is offering, generally to an extreme degree."



Shelf full of issues: Roy Hattersley listens to the local concerns of a shopkeeper in his Birmingham constituency

Economist sees drop in tax revenue under Smith

By Peter Norman, Economics Correspondent

LABOUR'S plans to increase sharply the income tax and National Insurance burden of middle managers could lead to a significant drop in national income and tax revenue, according to Professor Patrick Minford, the monetarist economist.

Applying econometric analysis to the behaviour of 7,000 male workers covered by the government's general household survey, Prof Minford concluded that Labour's plans could lead to a drop in national income of between 2.1 per cent and 2.5 per cent a year and a loss in tax revenue of between £7bn and £8bn.

Prof Minford said Labour's tax plans, unveiled by Mr John Smith, the shadow chancellor, would have a considerable disincentive effect on higher income groups. He said workers in the top fifth of the income scale – broadly the group earning more than £21,060 a year – would reduce their work effort by 12 per cent under Labour if their gross wages were held constant.

Those in the top tenth – earning more than £32,000 a year – would cut work effort by 8 per cent while those in the top twentieth on more than £50,000 would reduce work effort by 4.5 per cent.

The annual loss in terms of economic production would be £13.7bn or about 2.1 per cent of national income. Prof Minford warned that the output effects of Labour's plans would begin almost at once.

"By abolishing the National Insurance ceiling Labour would bring 3m moderate, yet highly productive, earners into a sharply higher marginal tax band. If the general household survey is to be believed, they will reallocate their activities dramatically over the longer run, to the severe detriment of the economy."

He said the negative effects on the economy would be greater if companies restored workers' pay to offset the impact of the tax increases. There would be a general rise in company costs, increased unemployment and a 2.5 per cent loss of output.

- The Institute of Directors has compared the manifestos of the three main parties with its own programme published last month. It finds that Conservative policies score 40 positive points against three negative, while Labour scores 21 positive points against 25 negative, and the Liberal Democrats 36 against 22.
- The Chemical Industry Association has called on all three main political parties to commit themselves to the creation of open trading conditions free from protectionism and competitive distortions.

Killing the Goose – Labour's Tax Proposals. Liverpool Macroeconomic Research Ltd, University of Liverpool, PO Box 147, Liverpool L69 3BX.

Surge in Lib Dem support foreseen

By Roger Matthews

THE INCREASE in support for the Liberal Democrats recorded in the weekend opinion polls was being noted on the doorsteps in several marginal north-west constituencies earlier last week.

It was particularly prevalent among former Tory supporters and appeared to have been boosted by the row over Labour's broadcast on the National Health Service.

The switch in voting intentions was said to be in reaction to the depth of the recession and what is perceived as the extremes of the two main parties. These voters see nothing wrong with the idea of politicians being forced to work together in a hung parliament.

In Pendle, Hyndburn, the two Bolton seats, Bury and Davyhulme, it was difficult to find people who had voted Conservative in 1987 ready to admit that they would switch to Labour. Their chosen half-way house was Liberal Democrat – in a few cases because of the positive aspects of that party's policies, but more often due to unwillingness to identify with either Labour or Conservative.

The area was already fertile ground. One of the most commonly heard arguments in urban north-west constituencies is that all the parties should work together for the greater good.

- In Scotland an opinion poll by Mori for the Sunday Times confirmed Labour's strong lead, putting it on 42 per cent (down one point from a week ago). The Scottish National party was on 27 per cent (unchanged), the Conservatives on 20 per cent (unchanged) and the Liberal Democrats on 10 per cent (up one point). The findings are roughly in line with other Scottish opinion polls, except that Mori puts the Tories two points lower than other polls last week.

Quotes of the day

That's only fair – it is, after all, their turn
Paddy Ashdown, responding to reports that David Owen will support the Conservatives

We are not talking tea and sandwiches – we are not even talking carbonated water and wafer biscuits
Neil Kinnock on relations with the unions

No politics, it's a Sunday
John Major

The parties should not only talk about family values, but demonstrate them by being with their own families on Sundays
David Blackmore, of the Keep Sunday Special Campaign

The recession doesn't necessarily radicalise people – a lot of people will literally hang on to nurse
Neil Kinnock

Trend reversed in share index

By Peter Martin

THE SECOND full week of the election campaign showed a reversal of trend for the FT Election Share Index, with stocks that might benefit from a Conservative victory doing better than those that might benefit from a Labour win.

The index, published daily during the campaign, consists of 10 stocks which might outperform in the event of a Labour victory and 10 which could benefit from a Conservative win.

Its performance last week differed in one other important respect from the first week of the campaign – the difference between "Conservative gainers" and "Labour gainers" was very slight.

The big loser of the week in the Labour index was APV, down 4.35 per cent on the week and down 1.71 per cent since the election campaign started. Its slide this week reflected the market's unhappiness at the company's poor results.

Stocks with a stronger political wind behind them were Thames Water (a "Conservative gainer" because of Labour's plans for tighter regulation), up 1.47 per cent on the week but down 15 per cent since March 11; and National Power, another privatisation stock, up 3.16 per cent on the week but down 9.7 per cent during the campaign as a whole. The moves must have reflected a belief that the political threat to both companies had been overdone.

Since the election was called all but one of the Conservative gainers – mostly companies that stand to lose in easily identifiable ways if the Labour party comes to power – have fallen in price.

The Labour gainers list also shows more losers than winners – seven down since the campaign started, three up. This probably reflects the fact that the potential benefits to this category of shares are more nebulous that the potential losses to those in the other list.

The base for the index is closing prices on the day the election was announced, Wednesday March 11. Both sections of the index are set to 100 at that date. The index is constructed on the same basis as the FT 30-share Ordinary index – which makes it highly sensitive to day-to-day share price movements and unsuitable for long-term performance measurement.

FT ELECTION SHARE INDEX

Labour win/Tory defeat stocks
(% change since March 11)

1.	BAT – profits mostly overseas	+2.6
2.	ICI – ditto; kingpin of favoured manufacturing sector	–1.4
3.	Blue Circle – infrastructure spending	–0.4
4.	Taylor Woodrow – infrastructure spending	+3.6
5.	BICC – infrastructure spending	–4.5
6.	GEC – ditto, plus good at dealing with governments	–3.8
7.	APV – capital goods, at core of manufacturing	–6.0
8.	Rolls-Royce – ditto, plus better chances of subsidy	+2.7
9.	Zetters – Tory lottery threat to pools	–0.8
10.	Land Securities – gain from tight Lab planning policy	–4.7

Tory win/Labour defeat stocks

1.	Courtaulds Textiles – Lab poses minimum wage threat	–8.9
2.	BET – min wage	–15.7
3.	Hanson – Lab threatens curbs on UK takeovers	–0.7
4.	S.G. Warburg – ditto, hitting corp finance revenues	–8.7
5.	Thames Water – Lab renationalisation threat	–4.2
6.	BT – Lab regulation, plus keen on fibre-optic network	–4.4
7.	National Power – Lab regulation	–9.7
8.	Prudential – Lab life insurance regulation	–4.7
9.	Forte – min wage	+2.6
10.	Whitbread – min wage, brewers' traditional Tory links	–6.5

View from: **Brussels**

EC partners keep one eye on presidency

BRUSSELS is watching the UK election campaign very closely, though its attention has been more focused on the French regional polls because of what they might portend for an early return of Mr Jacques Delors, the Commission president, to Paris.

Britain's European Community partners harbour a mix of hope and fear about the outcome on April 9 – with the mix differing in each of the 11 countries.

Perhaps their common trepidation about Labour coming to power is simply the concern about a relatively unknown and totally untried government taking over the presidency of the EC council of ministers. When the UK takes the presidency on July 1 it will confront a difficult agenda, with future financing of the EC almost certainly still to settle and the question of how and when to take in new members to resolve.

But all Britain's European partners, and the EC institutions, are agreed on one thing. A Labour victory would untangle the knot into which Mr John Major, the prime minister, tied the EC by refusing to go along with social policy at Maastricht. Labour has said it would immediately subscribe to the Maastricht treaty protocol which seeks to extend social policy regulation further and faster by the use of majority voting.

Quite how a Labour government would make Britain's change of heart legally effective, at this late stage, is not clear.

The Maastricht treaty, with all its protocols and annexes, has been signed. Some governments – notably Denmark which is busy distributing copies around the country in advance of its June 2 referendum on Maastricht – have already put the treaty to their parliaments.

A brief inter-governmental conference on social policy would probably have to follow a Labour victory.

With the three main UK parties broadly in favour of Maastricht, it is clear that European political and monetary union does not ride on the outcome of the British election, as it may do in the Danish referendum or in the eventual Bundestag debate.

But the Commission has, for some months now, been pulling its punches for some months now in order not to stir up "Euro-aggro" in Britain. It has, for instance:

- Delayed, until after April 9, its report on the system whereby Britain has had a two-thirds rebate on its contribution to the EC. This is likely to be as controversial as the other aspects of the Commission's requested funding for 1993-97, which have now all been published. Germany, a far bigger net contributor than the UK, gets no rebate itself and has signalled it no longer wants to contribute to the UK rebate.
- Delayed until April a report which will make clear its view that Britain is under a legal obligation from the Single European Act to abolish frontier checks on people, as well as goods, crossing intra-EC borders.

The UK government contends that the "free movement" provisions of the act apply only to EC citizens, and that it has the right to check the documents of non-EC travellers.

- Agreed to a UK request to postpone a March 11 hearing at the European Court of Justice on the Commission's complaint that the UK is infringing EC law on the purity of bathing water on certain Lancashire beaches.

Britain's partners are well aware that a Labour victory might change the balance of Community argument on several issues.

On the move to economic and monetary union, Labour has argued for more attention to be paid to real convergence (growth, employment and regional development) between states, as well as the nominal convergence (on debt, inflation and interest rates) prescribed in the Maastricht treaty. Labour has, for instance, said it would use the presidency to convene a special "jobs" summit between EC finance and employment ministers.

A Labour victory would mean that Sir Leon Brittan, the senior Tory-nominated UK Commissioner, could only stay on in Brussels if the Conservatives agreed, in a more junior post than the powerful competition portfolio he presently holds.

The likelihood of his departure, and the fact that no other European government is likely to appoint so free-market a liberal, would tilt the Commission view crucially on industrial policy.

David Buchan

'Paté' takes battle to France

By Ralph Atkins

BUOYED by a *rise in opinion* poll support for the Liberal Democrats, Mr Paddy Ashdown fled floating voters at home for France yesterday to seal *un photo-opportunité exceptionnel*.

Keen to boost his reputation as *un homme actif* et *un bon Européen*, Mr Ashdown addressed an imported audience in Boulogne on Labour and Conservative failure to set Europe as an election issue.

Monsieur *Paté* Ashdown – as translated by Mr Jean Gol, president of the Belgian Liberal party – boasted, in convincing French, of how he was the first *chef de parti opposition* to take his election campaign out of the UK. But the menu of Eurobabble and speech was for home consumption.

"We should campaign hard to see that the central bank comes to London, Europe's foremost financial centre. It is absurd for Britain to hold back and to see greater integration as a threat."

In the ensuing Euro-Liberal love-in, Mr Yves Galland, leader of the Liberal Democrat and Reform Group of the European parliament, compared *Paté* Ashdown's landing with the arrival of the Argyll and Sutherland Highlanders' regiment in defence of Belgium in 1914.

"Britain needs her Liberal Democrats if *she is to catch* quickly, and without loss, the European train leaving from Maastricht," he said.

Mr Willy de Clercq, president of the European Liberal Democrat and Reform Parties, poured on the *crème*: "You are not known as 'action man' for nothing," he said.

Mr Ashdown headed from the cheering audience, across the *road, for a three-course* lunch at Boulogne's La Matelote Restaurant, *avec des vins blanc, rouge et rosé* for the coach of journalists, then *returned, via high-speed* catamaran, to Dover. He had been abroad for less than four hours.

"It has been serious politics *and a good lunch*," said a party official. Back on the humdrum UK campaign trail, Mr Ashdown's visit to Rochdale and Manchester today will lack a certain *je ne sais quoi*.

● Earlier, Mr Ashdown *insisted that any minority government* would have to agree to introduce legislation authorising proportional representation in the first session of *the new parliament to secure* Liberal Democrat support, Ivor Owen writes.

He reaffirmed that in the event of a hung parliament *Liberal Democrat MPs* would be prepared to defeat the government rather than permit a re-run of 1974, when Mr Harold Wilson's minority administration clung to office for just over six months before securing a minuscule overall majority in a second general election.

Interviewed by David Frost on TV-am, Mr Ashdown *emphasised* the encouraging message from the opinion polls that support for the Liberal Democrats was growing with "not much sign" of it being squeezed by the two main parties.

He acknowledged that if unable to secure an overall majority both Mr John Major, the prime minister, and Mr Neil Kinnock, the Labour leader, were likely to seek to "ignore the judgment of the ballot box" and try to go it alone.

Joe Rogaly

Tories on Idiot Curve

THE impossible is now a distinct possibility. *Mr Neil* Kinnock could march into No 10 Downing Street on Friday week the undisputed champion of the election, a temporary uncrowned king needing no support from the Liberal Democrats, the unchallenged holder of one of the most powerful offices in the democratic world, Britain's elected dictator for the duration.

Hold hard. I know it could go the other way. The Conservatives could learn how to do politics. The thought of Mr Kinnock might frighten floating voters into a last-minute stampede towards the Tories. It is also true that the polls point unwaveringly towards a hung parliament. That would favour Labour but might constrain it in office. It is still the most likely result.

Yet it would be unwise to rule out the most stupendous outcome of them all – a simple majority for Labour. In 1987 and 1988 the thought of such an upheaval was properly dismissed as fantasy. Labour was hopelessly discredited. The Conservatives were riding high. When the election came, Labour would have to capture about 100 seats to win outright. Many of its target constituencies are in the south-east, the most difficult territory for Mr Kinnock's party. An unprecedented proportion of the Conservative electorate would have to be persuaded to change their allegiance.

This ancient conventional wisdom, which I shared at the time, has since been replaced by a less mechanical theory. What nearly everyone now says is that there will be no winner, and that in consequence there will have to be a coalition. Failing that, a second election will follow hard on the heels of the first. The new supposition has gained credence since 1989. The basis for this is *shown in a special* graph, designed by a bank of computers in the Financial Times laboratory of political science. It is the Idiot Curve. The x-axis represents rising Tory ineptitude. The y-axis shows an increasing Labour advantage. The line is currently pointing upwards at a steep angle. It charts the realisation that even if the psephological arithmetic seems to make a Labour triumph highly unlikely, the probability of the Conservatives throwing the entire game away grows every day.

This is why a Conservative overall majority would now be the surprise outcome. A mere 50 seats down, and they lose their supreme command of the commons. They have worked hard to lose those 50 seats. It has required a long and laborious climb up the Idiot Curve. They invented the poll tax, then messily discarded it at the cost of 2½p more VAT. They encouraged the aspiring classes – their own voters – to mortgage themselves beyond their reasonable means. They lowered taxes and deregulated, stoking a boom, and were in consequence obliged to raise interest rates, busting it. This destroyed the housing market and faced their loyal supporters with the threat of eviction. They kept Mrs Margaret Thatcher on as prime minister for at least a year longer than was wise, as I suspect her old adviser, Lord Whitelaw, would agree.

All of this landed Mr John Major with the task of preventing Labour from winning and a maximum of 18 months in which to do it. He was an interesting choice as antidote to Mrs Thatcher. I thought he might do the trick. Yet his many attractive qualities have obscured the central fact about his political abilities: that he is deficient in both experience and sheer horsepower. That explains why he mistimed the *election, persevered with the* politically deadly (although otherwise sound) reforms of the National Health Service, chose as party chairman a man with a marginal seat to defend, and appointed Mr Norman Lamont as chancellor. He climbed that Idiot Curve like a squirrel after nuts. All the Conservatives need to do is keep climbing for 10 more days and General Kinnock will enjoy a walkover.

It need not be that way. There is no national desire to see the Labour leader become prime minister. But if the Conservatives are to pull back Labour's lead in the short time available they should learn campaigning from the experts – the Labour party. One small example: the Kinnock platform always flaunts the slogan "It's time for change; it's time for Labour", or a part of it. The leader's speeches almost invariably end with the same assertions. The ordinary rules of advertising prevail. As to the Tory slogan – do *you* know what it is?

Mr Major, or his party chairman Mr Chris Patten, should select one and stick to it. If desperate, they could settle on "you can't trust Labour". It could shift the focus to Mr Kinnock this week. He acknowledged in his TV interview with Mr Walden yesterday that under his governance public-sector pay would be indexed to *private earnings. Labour is* already committed to indexing social payments to earnings or prices, whichever rises faster. These are immense commitments but the Conservatives' attack on Labour economics is not focused. It strays from hyperbole to absurdity. The Tories' tacticians will have to do much better than that if Labour is to be turned back. Failing such an improvement, Mr Kinnock's dream will come true.

City Watch:
Barry Riley

Sterling faces a spell of nerves

IS THIS the calm before the storm for the pound? According to Mr Keith Skeoch, chief economist at James Capel, a hung parliament with lots of horse trading will mean that "sterling is going to come under quite a lot of pressure".

But earlier fears of a sterling crisis during the election campaign have certainly not been fulfilled, even though the opinion polls point to a close and uncertain outcome.

In fact sterling has been rock solid, mostly between DM2.86 and DM2.87, for the first 2½ weeks of the campaign. All three parties are committed to maintaining the pound at a central rate of DM2.95. True, *the pound has been testing its* floor against the Spanish peseta. But it has been only about 3 per cent below its DM central rate, compared with the permitted 6 per cent fluctuation.

The European exchange rate mechanism has been doing its job. Traders evidently feel it is too risky to punt against sterling. But there is a price. While bank base rates have stayed at 10½ per cent, three-month money is up to 10¾ per cent and six-month money costs almost 11 per cent.

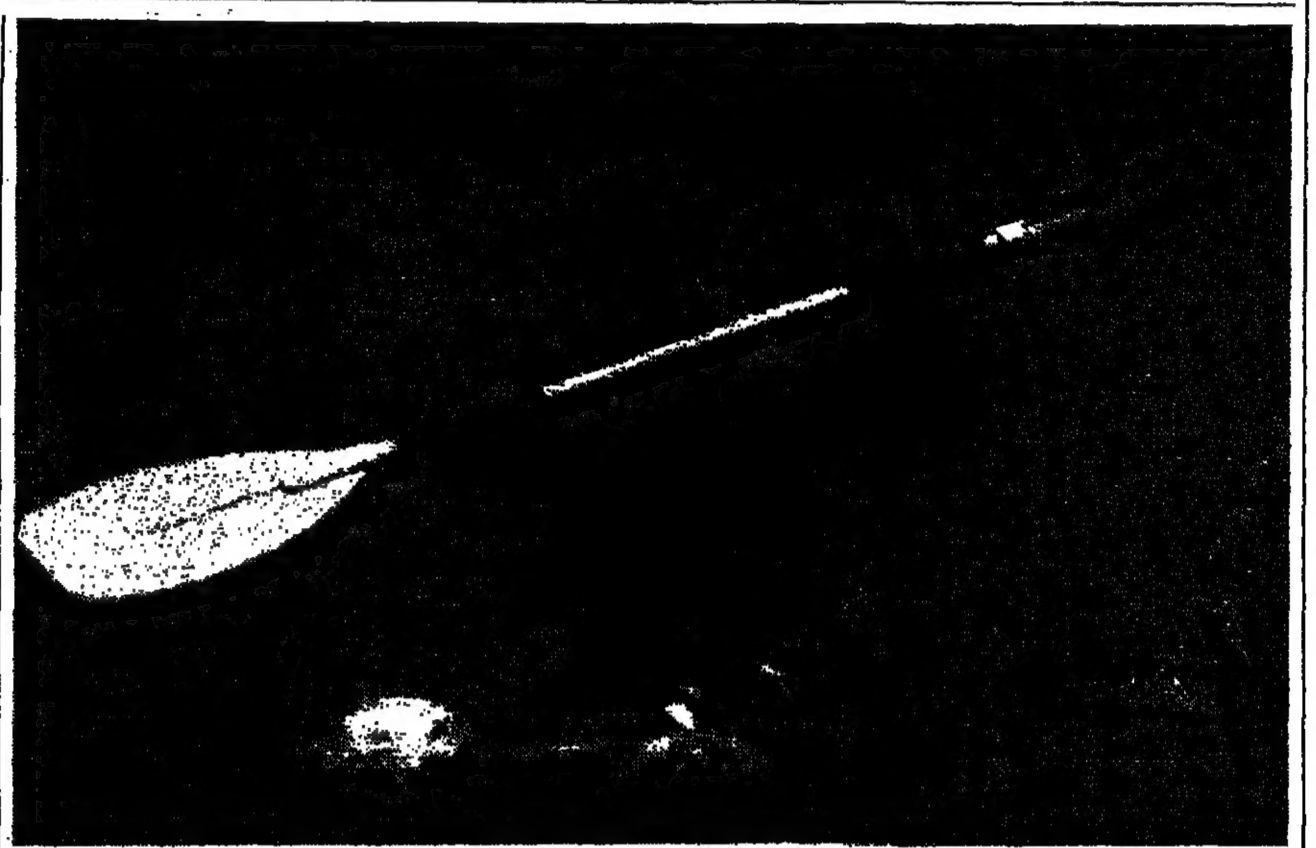
City experts fear a more serious bout of nerves after the poll. Mr Tim Congdon, of Lombard Street Research, is a well-known opponent of British ERM participation, using words like "catastrophe" to describe the consequences should interest rates be raised.

Nevertheless, there is a widespread feeling that a minority or majority Labour government would be expected to demonstrate its commitment to the ERM by hoisting interest rates at least temporarily: some say half a percentage point would be enough, others fear up to two points.

Mr Michael Hughes, chief economist at Barclays de Zoete Wedd, *thinks that such an* administration might need to pay attention to the budget deficit as well as to interest rates. "The Treasury, on a change of government, will encourage ministers to go into the 2¼ per cent band quite quickly," he believes. But far from being a soft option this would be "equivalent to the IMF in 1976" when big public sector spending cuts were forced on the then Labour government.

The possibility of sterling becoming a narrow band currency is a factor in limiting speculation against the pound. Mr Norman Lamont has only said that narrow bands will be adopted "in due course". One or two opportunities to do so – with sterling briefly above DM2.88 – have been passed up within the past six months, presumably because of pre-election nerves. But the pound cannot remain a wide band currency indefinitely without losing credibility.

A Tory win, most City experts agree, would take the heat off sterling for a while. But it seems rather unlikely at this stage that the Conservatives would have a working majority. This leaves traders to fret about the possibility of a devaluation by Labour, either immediately after looking at "the books" on taking power, or somewhat later, after interest rate rises become unacceptable. There are also worries about semi-public debates about economic policy between coalition partners.



In pursuit of the floating voter: Kate Phillips, the Labour candidate for Stirling, took to the water yesterday to follow part of her campaign trail by canoe. The constituency, where Michael Forsyth is defending a majority of just 548, will provide one of the closest fights in the general election. Labour will be keen to unseat one of Scotland's most prominent Conservatives, while Margaret Thatcher has been out campaigning for her former Scottish Office minister

THE ISSUES: DEFENCE

Cuts haunt Major's troops in marginals

PORTSMOUTH South was once rock-solid Conservative ground. Now it is one of the Tories' most precarious constituencies, among at least 30 Conservative marginals hit by defence job losses in the past two years.

At its eastern tip it ends in a cluster of empty navy homes, fenced off with "MoD Warning – Keep Out" signs. The occupants and neighbouring council tenants were evacuated last autumn in a contamination scare. Underfoot is what was known as the "glory hole" – used by the navy as a tip for asbestos and other waste.

Just to the west, behind the shingle beach, are the Victorian Eastney barracks, recently abandoned by the Royal Marines. Beyond that is the sea-front Tory heartland, backed by a swathe of guest-houses and bedsits. By contrast, north of the city centre, inland from the naval base, is a scarred zone of bleak council estates. Tory campaigners tread here at risk of verbal abuse.

The dominant employer is the navy – 13,000 service personnel in the Portsmouth area, 5,000 civilian staff.

"As a naval base its future is secure," Mr Norman Martin, a union official at the base, admits. Navy cuts will actually mean more activities being concentrated at Portsmouth. But a question hangs over the future role of its repair yard, once a major dockyard.

Further afield is a string of defence factories which have been shedding jobs several hundred at a time, including GEC-Marconi, which has about 5,000 employees in the region. Since 1989, unemployment has doubled to about 10 per cent.

The impact of such cuts on voting intentions is hard to assess. The Tories, traditionally strong on defence, still believe it is a card they can play against Labour's perceived "weakness".

But in Portsmouth South, as in other constituencies nearby, the direct challengers are the Liberal Democrats. This is a top target seat for them. Their candidate Mr Mike Hancock, who heads the city planning committee, captured it in a by-election in 1984. In 1987 the Conservatives' Mr David Martin dug him out by just 205 votes.

Mr Hancock, who wants the region to get special assisted status, is counting on transferred votes from Labour's home-ground. Mr Martin admits that, if there is large-scale tactical voting, "it could be a problem".

Both Labour and the Liberal Democrats are banking on strong interest in these areas for their proposals to help defence industries move into civil sectors.

Recent cuts have reduced Rolls-Royce's workforce at Bristol from 8,000 to 6,500. Mr Becker believes that without investment to bring in more civil business "there is really no future there".

Bristol's other main defence producer, British Aerospace's missile division, has shed more than three quarters of its employees, leaving 800 and hardly any manufacturing activity.

One of the BAe survivors, Mr Lawrence Elton, says many potential Tory supporters have become disaffected. "When you think of the number of people who've gone down the tubes under a pro-defence Tory government . . ."

According to Mr Paul Dowdall of Bristol Polytechnic's Research Unit in Defence Economics, nearly half the 10,000 defence jobs lost in the south-west in the last two years have been in and around Bristol. This compares with a current total, he estimates, of 15,000-20,000 defence-related jobs, about to be boosted by the transfer of some 5,500 Ministry of Defence procurement staff to Bristol's business park, close to the Rolls-Royce and BAe works.

Of five Bristol constituencies, three – Bristol North-West, Bristol East and Kingswood – are Tory marginals, all in the catchment area for these plants.

The most marginal of these is Kingswood. A 3.8 per cent *swing would win it for Labour*.

Mr Rob Hayward, who has held this untypical seat for the Conservatives since 1983, sees it being a close result either way. A "residual consciousness" about the importance of defence to the region is one factor still in the Tories' favour, he believes.

Not so, says his Labour opponent, Mr Roger Berry, an economics lecturer. "Whenever Conservatives talk about defence, people think about job losses," he says. Unemployment in the constituency, he says, has risen 160 per cent in the past two years. He identifies *defence employment* as a key issue.

In other respects, defence is hardly a prominent issue at all. Differences between the main parties have shrunk since the last two elections, and the Liberal Democrats say defence would not be an obstacle to their co-operation with either Labour or the Conservatives in a hung parliament.

The old clash over Britain's nuclear deterrent is reduced to whether there should be three or four Trident submarines, and a Labour government might well decide to build the fourth anyway. Trident is not *even mentioned in the Labour* manifesto.

Nor is there mention of a defence review, although the party has said it would carry out a "re-assessment" in its first six months in office.

Targets for cutting defence funds have become something of a taboo for both Labour and the Liberal Democrats. Defence savings were a popular theme until the Conservatives showed how unpopular the results of even *their* reductions could be, when they hit regiments or civilian jobs.

David White

Surveys show C2s starting to change their allegiances

By David Owen

THE HEADLINE figures of this weekend's opinion polls showed the Tories making up some of the deficit on Labour. But there was still precious little cheer for them in the fine print.

It showed that the battle of Jennifer's ear had left health – a subject on which Labour traditionally does well – unrivalled as the campaign's main issue.

Although the broadcast did not appear directly to have bolstered Labour's ratings – as it certainly benefited the Liberal Democrats, who opted to stay out of the subsequent mud-slinging – neither did it significantly harm them. Overall, the party remained comfortably ahead of the Tories on this key topic.

The polls again highlighted the Conservatives' failure to get tax on to the agenda and underlined Labour's continuing improvement on matters of economic competence.

Perhaps most worrying of all for the Tories, two surveys indicated them heavily losing the struggle for the vital C2s, the skilled working classes *whose support underpinned* the victories of the Thatcher years.

According to ICM for the Sunday Express, Labour's lead *among the C2s now stands at a* startling 14 points, up from 5 two weeks ago. NOP for The Mail on Sunday put Labour's edge among C2s at 6 points, double what it was a week earlier.

NOP for The Independent on Sunday offered the Conservatives a glimmer of light, suggesting that 65 per cent of C2s thought their taxes would rise under Labour.

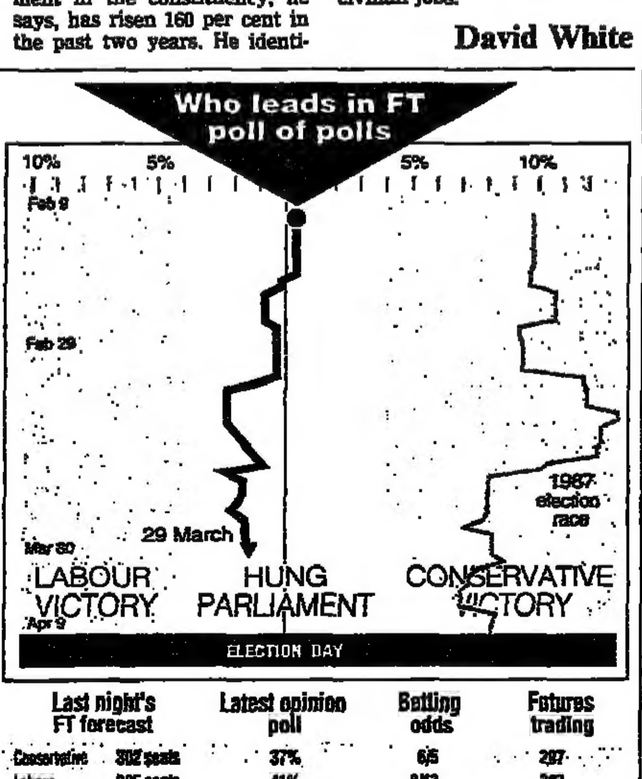
But Mori for The Sunday Times indicated that only 12 per cent of voters saw tax as one of the prime issues determining which way they will vote. That compared with six *out of 10 respondents* who regarded health as a key issue.

Labour's lead as the party with the best National Health Service policies was left intact in the wake of the Jennifer broadcast, with Harris for The Observer putting it at 14 points.

Of those who saw it, 51 per cent told NOP/Mail on Sunday that it would make no difference to the way they voted.

The Liberal Democrats' decision to keep out of the subsequent slanging match over how the subject's name entered the public domain lies behind the strong *increase to* 30 per cent in the number of NOP/Independent on Sunday respondents saying the party was running the most impressive campaign.

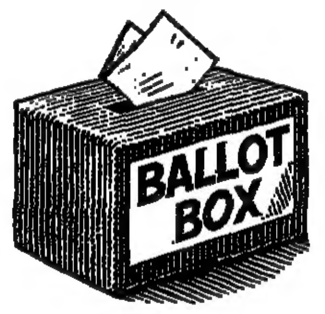
In a good week for the party, Mr Paddy Ashdown, its leader, has closed to within 5 points of prime minister John Major in his personal ratings as tracked by NOP/Mail on Sunday. A total of 51 per cent now think Mr Major is doing a good job, *against 46 per cent* for Mr Ashdown and 35 per cent for Mr Kinnock.



	Last night's FT forecast	Latest opinion poll	Betting odds	Futures trading
Conservative	302 seats	37%	6/5	297
Labour	305 seats	41%	8/13	307
LiberalDem	18 seats	18%	400/1	23
		(NOP/Mail on Sunday) Field date 27-28 March	Ladbrokes (for most seats)	Dealing on the number of seats (IG index mid-prices)

* Weighted average of six most recent opinion polls computed daily. Does not include telephone polls, panel polls and those that omit sample size or field dates. The graph compares the parties' leads at similar points in the last campaign. The middle line marks level-pegging. If the black line moves left, Labour leads. The Tories lead if it goes to the right.

Election day in spitting distance



Spitting Image, the political satire programme, is to return to the television screen on April 8 – the eve of the general election. "So far nobody has even raised a question about it," says a spokesman for Central TV, the company that puts it out.

At the last general election in 1987, a special *Spitting Image* programme appeared at 10 pm, just after the polls closed and before the coverage of the results by ITN. It was quite savage.

Will the April 8 show be equally sharp? The answer is *that it is impossible to tell in* advance. The political puppets will appear in front of a live audience as a sort of *Question Time* and the answers will be ad-libbed. A regular *Spitting Image* series resumes on April 12.

To the rescue

Chris Patten, the tired-looking Tory chairman, may be safe in his marginal seat of Bath after all. The Labour candidate, Pam Richards, social worker and local councillor, is coming to his rescue.

Labour won only 5,507 votes last time, way behind the Tories and the Social Democratic party who came within about 1,400 of Patten's vote. Richards, however, is splitting the anti-Tory vote.

At a meeting for all seven candidates on Friday, Richards tore into Conservative policies on health, education and the economy. Although the audience had been carefully selected to provide rough balance between supporters of rival parties, she was rewarded with a 20 second ovation at the end, against only 10 seconds for Patten.

The real loser was Don Foster, the Liberal Democratic candidate, who said Richards' vociferous support was due to the fact that she had given her chief canvassers the *evening off to allow them to* cheer her on. Most Liberal Democrat activists were hard at work knocking on doors.

No contest

Nothing new out of Northern Ireland. The Irish bookmakers, Eastwoods, are forecasting that all 17 Ulster MPs will keep their seats. That includes Gerry Adams, the president of Sinn Fein, who continues to fight Belfast West, but declines to sit in Westminster. Adams had a majority of only 2,221 over the mainly Catholic SDLP at the last election. Ian Paisley, by contrast, had a *majority of more than 23,000* in Antrim North, but says he is fighting as if he is in danger of losing his deposit. The odds against this are unquotable.

Nellist's way

An interview by BBC Radio 4 in Coventry South East the other day went roughly as follows.

"Will you be voting for Dave Nellist in the general election?"

"Of course, he's always been a strong supporter of the Labour movement."

"You realise that Dave Nellist is no longer the official candidate of the Labour party?"

"Oh, yes, of course."

"So will you be voting for Dave Nellist at the general election?"

"Oh, no, of course not."

The confusion may continue all the way to the ballot box. An opinion poll in the Birmingham Post today suggests that Nellist, the man who was expelled from the Labour party for his Militant activities and now standing as Independent Labour, has 30 per cent of the vote, against 32 per cent for official Labour and 28 per cent for the Tories. When he was still a member of the Labour party at the last general election, Nellist won 47 per cent. He may now let in the Tories.

Hard going

How long would someone have to work at Labour's proposed minimum hourly rate of £3.40 to earn an annual salary £21,060, the present ceiling on National Insurance contributions? A reader who is a retired accountant was struck by the disparity between these two hotly debated figures and worked out the answer – almost 17 hours a day, 365 days of the year.

ELECTION 1992: Business under Labour

■ CREDIT CONTROLS ■ MINIMUM WAGE WOULD REGULATE JOB MARKET ■ TAX INCENTIVES TO ENCOURAGE INVESTMENT

Industry's fear of the unknown

By Charles Leadbeater, Industrial Editor

LEFTWINGERS used to accuse Mrs Thatcher of turning Britain into the 51st state of the US. Rightwingers might soon be accusing Labour of wanting to turn Britain into Germany's 17th land.

For if there is a guiding inspiration to Labour's industrial strategy it is the stable, regulated, and highly productive German manufacturing sector.

Among business executives, Labour's plans excite nervous apprehension, laced with ignorance and spiced by a dose of self-interest about their tax bills.

Labour's strategy has four main ingredients:
- The focus would shift to supply-side policies to stimulate investment and promote training as macro-economic policy would be anchored to sterling's ERM membership.
- Direct state intervention and public ownership have largely given way to regulation of business. The labour market would be regulated by a minimum wage and a levy to support training; oversight of the privatised utilities would tighten; competition policy would restrict takeovers in "the public interest"; banks and borrowing could be regulated by credit controls.
- To offset the risk that the economy would be made less flexible by regulation, Labour hopes that it would make the economy more productive by offering tax incentives for investment, and by spending more on education, training and infrastructure.
- Labour would seek to emulate the consensus of Germany's social market by building a partnership between the public and private sectors, for instance through private investment in railways and a national investment bank to gather private investment for public infrastructure projects.

The impact on business would depend on the interaction of these ingredients over the short, medium and long term.

In the short-run the main risk would be heavy foreign selling of sterling assets, bringing pressure on the pound and interest rates. If Labour had to put up interest rates for more than three months the consequences could become very serious, especially for construction, property and retailing.

Should Labour get through the first few months without its plans being derailed, business would start to feel the medium-term effects of the party's industrial strategy.

This package is crafted to deflect business criticism. Labour would carry over key measures from last month's Budget – a reduction of the uniform business rate and a halving of the car tax. Many other measures are drawn directly from proposals made by business groups.

The most potent and costly would be a one-year increase from 25 per cent to 40 per cent in tax allowances for manufacturing companies to invest in plant and equipment.

This could provoke a temporary surge in investment. Mr Sushil Wadhwani, director of UK and European Equity Strategy at Goldman Sachs, estimates it would reduce the cost of capital by 4 per cent and add 1.2 per cent to corporate profits. The National Institute of Economic and Social Research estimates the move would cost about £1.3bn in a full year and increase the level of investment by 6.5 per cent.

These allowances would mainly benefit the motor, chemicals and food manufacturing industries but bring little joy to brewers and metals and electronics groups.

Labour estimates that a permanent tax credit worth 25 per cent of any additional research and development spending would cost £130m a year if it boosted business R&D by 10 per cent. This would benefit science-intensive sectors such as electronics, pharmaceuticals and engineering.

A scheme to encourage engineering companies with fewer than 500 employees to invest in new production processes by providing grants worth 25 per cent of the outlay would have a marginal effect. Its cost, £40m a year, is equivalent to just one day's investment by the engineering industry.

House builders, particularly in the south-east, would benefit from Labour's plan to allow councils to use receipts from council house sales to fund new building. About £4.5bn of the £8bn receipts are held by councils in the south-east. Construction companies should also benefit if Labour delivers its commitment to fund extra public infrastructure work.

The utilities, spared the threat of renationalisation, could suffer from tighter regulation. The "RPI-minus-X" price formula could be tightened and Labour might cap the rate of return that utilities can earn to curb "excessive profits".

This could hurt British Gas and the water and electric companies, but might benefit big industrial consumers, such as the steel and chemicals industries, which complain about electricity prices.

Restrictions on takeovers might be a blow to young acquisitive groups such as Williams Holdings and Tomkins, which aim to follow the likes of Hanson and BTR by growing big through acquisition. The restrictions might be welcomed by some of the managers of the smallest quoted companies – the bottom 60 per cent – which face the highest probability of being taken over. Life for small takeover targets might become easier.

Small businesses would be most worried by a Labour victory. Labour plans streamlined advisory services, measures to combat late payment by big companies, and technology audits. However, small businesses would gain least from measures such as higher capital allowances and would suffer most from the cost of a minimum wage, although this may well only become effective midway through a Labour government.

Many industrialists will privately admit that for a period of up to two years Labour might be better for their companies – if not for their own pockets. They claim their real worries are about the long-term change to the business climate.

They have two concerns. The first is that Labour has not changed, that leftwingers and unions would gain influence, public spending and borrowing would let rip, inflation and interest rates would rise as the work ethic declines and authority slips from managers.

The second, and more realistic, anxiety is that Labour has changed but its reformed policies would bring a new hazard: business could be burdened by regulations which would slowly sap entrepreneurial dynamism while Labour's supply-side policies prove ineffective as a counterbalance.

In this scenario, business could get German-style regulation without the compensating benefits; German costs without German levels of productivity.

If Labour were installed on a strictly short-term basis to lift manufacturing out of recession then a significant minority of industry might vote for it. But Labour wants more than that: it wants a framework for business modelled on continental Europe as an alternative to the free-market capitalism of the 1980s. That would require not grudging acquiescence but enthusiastic co-operation from business.

As business got used to Labour, with European monetary union in prospect, perhaps the culture would change. But it seems unlikely. As one of Labour's economic advisers put it: "The package will work; Labour has changed. The problem is that British industrialists have not changed and they do not want to let it work."

Which industries will win or lose

W Gain relative to average for all industry
L Loss relative to average
W/L Mixed effects
N Neutral

	Building materials	Construction	Engineering	Metals	Motors	Food Manufacturing	Pharmaceuticals	Stores	Packaging & paper	Textiles	Chemicals	Electricity	Telecommunications	Water	Conglomerates	Electronics	Brewers
Higher capital allowances	W	L	W	L	W	W	W	L	W	W/L	W	W	W	W	L	L	L
R & D credit	L	L	W	L	W	L	W	L	L	L	W	L	W	L	L	W	L
Minimum wage	W	W	W/L	W/L	W/L	W/L	W	L	W	L	W	W/L	W/L	W/L	W/L	L	L
Change in consumption patterns / Public spending	W	W	N	N	W	W	W	W/L	N	N	N	W	N	N	N	N	W
Regulation/Competition policy	N	N	W	W	N	N	N		N	W/L	N	L	L	L	L	N	N
Overall	W	W/L	W	L	W	W/L	W	L	W/L	W/L	W	W/L	W/L	W/L	L	W/L	L

Adapted from Labour's Programme; The Stock Market Implications by Sushil Wadhwani, Goldman Sachs, May 1991.

PROPOSED LEGISLATION

True colours will take time to show through

By David Owen

THEY MAINLY fear the worst. But the first offerings of a Labour government may be less alarming for Britain's business leaders than they commonly suppose.

The measures outlined in the shadow Budget aside, the new masters would probably be so busy creating their promised raft of trusts, agencies and commissions that they would have little time for anything more radical – at least in the early days.

The true colours of this new apparatus of government – including technology trusts, consumer and environmental protection commissions, a defence diversification agency and others – would in time emerge. But building quangoes is hardly the stuff of socialism red in tooth and claw.

A few more radical and controversial initiatives are among the party's priorities for the first full parliamentary session.

These would include implementation of a minimum wage, creation of a national investment bank, forcing companies which invest less than 0.5 per cent of their payroll in training to pay the difference between what they do spend and this level into an in-work training fund, and tougher regulation of utilities. The party would also opt into the social chapter of the European treaty as quickly as possible.

But much watering-down has gone on since these measures were first proposed:
- The minimum wage would be unlikely to come into effect until next year, with the original policy formula of half of median male earnings having for the moment been shelved.
- The national investment bank would not engage in direct investment, as originally suggested, but instead channel private finance into public projects.
- The training contributions from companies failing to invest the stipulated minimum in their own workforce would not be raised above 0.5 per cent without extensive consultation with industry.
- Revamped regulation of utilities is generally seen as a more acceptable and cheaper way of asserting public control in the interest of consumers than a return to majority public ownership.

Even the water industry, described as "a priority for return to the public sector" in last year's Opportunity Britain policy document, is an unlikely candidate for repurchase in the short term.

Other measures that officials would like to cram into a first full parliamentary session include the following:
- Introduction of a "public interest" test for bids, which would seek to take into account the impact of any deal on research and development, employment and regional location. The test would be adjudicated by the Monopolies and Mergers Commission. The share-ownership threshold – currently 30 per cent – above which a bid has to be launched would be reduced to an unspecified level no lower than 15 per cent.
- Reorganisation of the Department of Trade and Industry along unspecified lines but with particular attention to small companies and consumer affairs. Another high priority would be to beef up the Office of Fair Trading, strengthening its investigative powers and empowering it to pursue a more proactive competition policy.
- Reforms to industrial relations law and practice, including setting up a new industrial court, restoring a limited right to take sympathetic industrial action, and banning employee blacklisting on the basis of trade union membership. Legislation is planned to prevent the total sequestration of a trade union's income and assets in a way which paralysed it in its lawful business. Courts would be stopped from issuing ex parte injunctions to an employer without the union being able to put its case.
- An employees' charter, dovetailing neatly with the rights enshrined in the EC social chapter, would be implemented.

This would cover equal status for all employees including part-timers, the minimum wage, health and safety at work, protection against unfair dismissal, and maternity and paternity leave. Not all of the associated legislation would necessarily be enacted in one go.
- Reform of the motor vehicle taxation system in a fiscally neutral way to promote efficiency and fewer harmful emissions.
- The process of linking arms exports to recipients' human-rights records will begin with the setting up of a human-rights department within the foreign office.
- Implementation of legislation passed in 1990 which would give creditor rights to members of wound-up pension funds.

As a first stage of reform, the law would be changed so that pension funds belonged to their members and not to employers. Employees would make up half of pension trustees.
- The party is keen to push consumer-protection measures on to the EC agenda during the UK's six-month Community presidency, which starts on July 1.

■ Lord Hanson

Views of a Tory supporter

What would be the greatest risk of a Tory government?
For it to have an insufficient majority to enable it to take the difficult decisions necessary to make Britain competitive within Europe and other world markets.

What would be the greatest risk of a Labour government?
The country will rapidly return towards a managed economy, increased public expenditure, higher taxes and under-managed (or worse, politically managed) public services.

Has the election campaign addressed the most important issues facing business?
The main concerns upon which all others hinge is increased taxation and the diminished confidence and stifled enterprise which a Labour government would cause.

What should be a government's priority for industry?
Encouragement for industry to invest for the future, based upon downward pressure on inflation, movement out of recession and an easing of the interest burden.

Will Britain be a better place to invest under Labour or the Conservatives?
To return to the policies of the 1970s could lead to a loss of confidence abroad and a gradual withdrawal of foreign investment.

What would be the effect of *Labour's plans to restrict takeovers?*
Anything that limits proper competition between groups of managers for the right to manage the limited corporate assets available is against the interests of consumers, shareholders, employees and in the long term the community as a whole.

Should Britain have a minimum wage?
No. A minimum wage would push up costs and lead to demanning and further unemployment.

Are there any attractive features of Labour's industrial policy?
No. A Labour government would reintroduce the failed policies of the past. Labour's detailed regulations would be a bureaucratic nightmare.

MINIMUM WAGE

Observers react with scepticism

By John Thornhill

THE POLITICAL battle-lines are firmly drawn over Labour's plan to introduce a national minimum wage, but many observers in industry believe that much of the debate is sound and fury signifying little.

Supporters believe the minimum wage would lead to more equitable distribution of income for the estimated 4.5m employees in the UK paid less than Labour's proposed minimum of £3.40 an hour. Critics say it is a sure-fire recipe for lost jobs and would lead to an inflationary wage spiral.

Mr Michael Howard, employment *minister, speaking on a* BBC election phone-in radio *programme last week*, argued that the minimum wage would not succeed in helping those people it was designed to help and might destroy up to 2m jobs if employers sought to maintain pay differentials.

"Is it better for someone to work at £3.06 an hour or not at all?" he asked one caller.

However, a survey published last week by Industrial Relations Services, the independent pay research group, found that most personnel managers seemingly did not share such views and were "not particularly hostile" to the plan.

Of 527 companies surveyed, 41.3 per cent were opposed in principle, 31.5 per cent had no strong opinion and 27.2 per cent supported it.

The survey said job losses would "probably be far more limited than the government predictions would suggest".

Not surprisingly, the trade unions are strongly in favour. Mr Pat Jones, a spokesman for Usdaw, the shopworkers' union, said the suggestion that it would lead to job losses was "absolute rubbish".

He said: "The same argument was used before the introduction of the wages council in the 1940s and there was never any evidence to support it."

There is a widespread feeling in the City, at least, that the minimum wage is a sop to the Labour left and may even be quietly abandoned. They point to apparent back-sliding, with the suggestion that its introduction would be deferred for a year.

"The Liberal Democrats are not in favour of the minimum wage and, if you assume we will be in the grey middle-ground of coalitions after the election, then it might be a issue Labour is prepared to give ground on," says Mr Alun Jones, head of quantitative research at stockbroker UBS Phillips & Drew and co-author of a study of Labour's economic proposals.

City analysts say the leisure, textiles, stores, brewing and food manufacturing sectors would be most affected by a minimum wage.

Yet the effects of a minimum wage are probably impossible to calculate. It would not immediately compel companies to sack droves of employees; there would be more subtle attempts to adjust recruitment practices, trim working hours, and review grading structures.

Higher minimum wage, more hamburger-flippers, Page 5

CASE STUDY: ASDA

Annual wage bill would rise by £3m

By John Thornhill

THE grand rhetoric associated with the imposition of the minimum wage will almost inevitably end up in grim niggling debates for those who would *have to implement it*.

Many companies, feeling the pinch because of the recession, would clearly try to minimise the impact on their wage bills and would spend hours in talks with trade unions discussing how to implement it.

Asda, the grocery chain which is the biggest employer in Yorkshire, has recently been *struggling with high* borrowings and tough trading conditions. It introduced a wage freeze this year in agreement with the GMB union.

The year-long freeze applies to all employees, from check-out operators to main board directors, but may be under severe pressure if a Labour government were to enact its minimum wage proposals. *Unlike some manufacturing* companies, retailers cannot move their operations abroad and would face the full brunt of cost increases in the UK.

The immediate effect would be to force Asda to increase the pay of the 25,000 hourly-paid staff who fall below the £3.40 threshold. That would be likely to to cost the company *upwards of* £3m a year.

Most of Asda's affected employees are only 4p below the minimum, with others falling 7p to 14p short. Employees in London stores would not be affected because they are already paid above the minimum.

Other categories of staff may also be affected. For example, Asda is not certain what the *position of trainees would be* under the proposed scheme. Asda pays employees £3.08 an hour during their first 12 weeks of training, in line with the wages-council rate.

The minimum wage would also generate pressure to maintain pay differentials for staff on higher grades. These pay pressures could be significant, though *they are impossible to* calculate. The unions accept that this issue may cause some difficulties.

Hard-pressed companies would find it difficult to absorb the inflationary cost pressures resulting from stepping-up of pay bands. But if differential rates were not raised, Mr Pat *Jones* of the shopworkers' union Usdaw predicts: "It *would cause a revolt* in the stores. Nobody would take a supervisor's job if they were paid the same as someone who collects trolleys."

Mr Phil Cox, Asda's finance director, says: "Although we are very much against the minimum wage, it is not something that would have a massive effect on us. I do not think *it* will be an enormous cost but it is certainly not helpful."

He suggests the pressures will be more acute for some, smaller competitors.

MIDDLE-RANGE COMPANIES

Warning of textile sector job losses

By Daniel Green

"MIDDLE-SIZED companies tend to get ignored by politicians," says Mr David Parker, chairman and chief executive of Sherwood Group with 3,000 employees.

The company is one of the largest suppliers of lace in Europe and Britain's third biggest sock maker – too big to attract small business grants but too small to qualify for special assistance for strategic industries.

Life under Labour would, nevertheless, change the Nottingham business from shop-floor to boardroom, though in financial terms Mr Parker's team reckons it comes out more or less even.

This does not prevent Mr Parker putting personal taxation at the top of his list of worries. "Labour's plans would damage incentives for middle-to-senior management, rather than the most senior," he says.

He identifies about 70 of the 2,400 UK staff who would be hit by Labour's plan to lift the ceiling on national insurance payments for earnings above about £21,000 a year. Less than 15 are even close to being affected by the 50 per cent tax band for incomes above £40,000.

Mr Parker is concerned about the prospect of a minimum wage. The textile industry has a high proportion of women workers on low wages, many on piecework. Some of Britain's biggest textile companies such as *Coats Viyella and* William Baird have warned that heavy job losses would result.

Sherwood is better placed than many. Lace and sock-making are highly automated.

Across the company about 500 staff earn less than the £3.40 an hour Labour says will be its minimum wage. Although this includes some teenagers, trainees and unskilled staff, most of them are in garment-making and Mr Parker says he "would probably accelerate our drive to assemble garments in the Pacific basin". The proportion of Sherwood's clothes made in the far east should go up to 50 per cent fairly soon in any case but could go higher "depending on *circumstances*".

Sherwood has experience of a *minimum* wage environment. It manufactures in France, the *Netherlands* and Germany. "Wages are higher there," says Mr Parker *guardedly*, and he acknowledges that this hurts *margins*.

A minimum wage might not help employment, but should help productivity. Sherwood would spend more on automated machinery additionally encouraged by Labour's plan to give 40 per cent capital allowances in the first year, which would add £100,000 to the company's *cashflow* for this year, according to Mr Peter Newbold, the finance director.

■ David Goldstone

Views of a Labour supporter

What would be the greatest risk of a Tory government?
That the recession would continue and they would take no effective steps to tackle it.

What would be the greatest risk of a Labour government?
Expectations on the part of the electorate might exceed the realistic possibilities of what can be achieved by government action.

Has the campaign addressed the most important issues facing business?
Because of the concentration on the plight of the economy and the depth of recession and the *concerns* regarding the health service, there has been insufficient attention paid to date to education, training and homelessness.

What should be a government's priority for industry?
The sheer inertia induced in business by the depth and duration of the recession, aggravated by the unwillingness on the part of the Conservative government to recognise the problem, makes investment a major priority.

Will Britain be a better place to invest under Labour or the Conservatives? Further investment depends upon restoration of confidence. Many people do not believe the policies or indeed lack of policy of the previous government warrants its re-election. Britain would be better for investment under Labour because Labour would be more aware of the need to encourage investment.

What would be the effects of Labour's plans to restrict takeovers? Labour is broadly in line with that of the European Community. The distinction is between short-termism and Labour's longer-term view.

Should Britain have a minimum wage? I do not believe that a minimum wage would have an adverse impact. Our objective must be to stimulate the economy and a factor in this must be tackling low pay.

Are there any attractive features of the Conservatives' industrial policy?
It is the sheer absence of an industrial policy which has contributed to the worst recession that business people in the UK have ever encountered.

UK business failures show rise of 4.5%

By Alan Pike

BUSINESS failures in the first quarter of this year have continued to rise above the high levels of 1991.

A survey by Dun & Bradstreet, the business information company, shows that 14,881 British businesses collapsed during the first quarter of 1992. This is 4.5 per cent up on the 14,245 failures recorded by the same survey in the last quarter of 1991.

The current weekly rate of business failures, totalling 1,240, shows a dramatic increase over the 800 level recorded for the first quarter of last year.

Mr Philip Mellor, Dun & Bradstreet's marketing manager, stressed that in previous recessions the failure rate had peaked some time after a recovery was under way.

"The larger company has the ability to cut back fixed costs while the smaller business, so far into the down-turn, does not have that option."

The survey was, however, drawn immediately into the election campaign with Mr Gordon Brown, Labour's trade and industry spokesman, saying that it showed that business failures would exceed 100,000 during the recession with more than 1m lost jobs. "This makes this recession election a referendum on Conservative economic failure," he said.

Dun & Bradstreet's figures show a slight slowing in the weekly rate of company liquidations, from 479 to 467, between the last quarter of 1991 and the first quarter 1992. Individual or small business bankruptcies, however, rose from 706 to 773 per week.

London and the south east were the worst-hit areas, with nearly 40 per cent of all business failures and more than half of liquidations. Business failures in the south east excluding London were 87.5 per cent higher in the first quarter of 1992 that during the same period last year.

In addition to London and the south east, the highest rates of increase in corporate liquidations between the first quarters of 1991 and 1992 were in the west midlands and Wales. The lowest were the East Midlands and Scotland. Bankruptcies rose by more than two-thirds in all regions except Scotland, where the increase was 29.4 per cent.

Household income gap widens

By John Willman, Public Policy Editor

THE real income of the UK's poorest households fell during the 1980s, the Low Pay Unit says in a report published today.

Using figures from the government's Family Expenditure Surveys, the report calculates that the average income of the bottom fifth of households fell from £3,442 in 1979 to £3,282 in 1989 (1989 prices). The average income of the top fifth rose over the same period from £20,138 to £28,124.

One reason for the widening gap is changes which have been made to the tax and social security systems, the report says. Most of the benefit of income tax cuts went to those at the top of the scale, while increases in indirect taxes such as VAT, national insurance and poll tax have born down disproportionately on low-income families.

But the report attributes much of the increase in poverty to the growth of low wages, encouraged by deregulation and unemployment.

The number of adults earning less than the Council of Europe's "decency threshold" for wages has increased since 1979 from 7.8m (38 per cent of the workforce) to 10m (47 per cent). The "decency threshold" defines low pay as 68 per cent of all full-timers' mean earnings, giving a figure of £193.60 a week (£5.15 an hour).

Outside Names at Lloyd's could suffer 'big losses'

By Richard Lapper

WORKING NAMES – those members of Lloyd's who have jobs at the insurance market – fared significantly better than outside Names in 1989, according to figures circulating in the market.

Estimates based on preliminary syndicate results suggest that, when Lloyd's reports its 1989 results in June this year, Names will pay more than £1.35bn to meet losses run up by syndicates into which they are grouped.

But outsiders who supplied more than 87 per cent of the market's capital look set to bear more than 87 per cent of the losses. Names are the individuals whose assets provide Lloyd's capital.

The estimates were collated by Chatset, an independent company which analyses Lloyd's. They were compared with details of the participation of working and outsider Names, collated by syndicate, which were published last month by Lloyd's. The Chatset estimates indicate that working members will receive 16.7 per cent of the profits generated by the top 20 syndicates, but will pay out only 5.7 per cent of the losses suffered by the 20 worst-performing syndicates.

Working Names accounted for between 32.7 and 33.9 per cent of the capacity of four small syndicates, which will produce the market's best results.

Outsiders dominated loss-making catastrophe reinsurance in which syndicates and London insurance companies insured each others' exposures.

The market's seven worst-hit syndicates – managed by the Gooda Walker, Feltrim, Rose Thomson Young and Devonshire agencies – ran up losses of nearly £600m, nearly half the total loss. None drew more than 7 per cent of their capital from working Names. The news is certain to anger Names on the syndicates, many of whom are backing legal action which will enter a decisive phase this week.

The Commercial Court will hear motions from more than 830 Names, issued by solicitors Michael Freeman on Tuesday, seeking injunctions to prevent the draw-down of their funds. The money is needed to pay insurance losses.

Sir David Walker, chairman of the Securities and Investments Board, is directing investigations at Lloyd's into allegations that outsiders have been systematically channelled onto poor-performing syndicates with insiders reserving the best business for themselves.

Group urges federal industrial policy

By Andrew Baxter

BRITAIN needs a federal industrial policy which recognises that creating national or even European "champions" is outmoded, according to a report today from the Institute for Public Policy Research.

The left-of-centre think tank argues that industrial policy which does not take into account the power and importance of worldwide developments in technology, production and products will not succeed.

The report, by Irene Brunskill, an IPPR research fellow, says Britain is already working within a federalist framework in many areas associated with industrial policy. Trade, competition and technology policies and industrial subsidies are all areas where the European Community plays a role.

"The weak link in the chain is the British policy maker," it says. "European policy does not provide an excuse for 'non-policy' at the British end."

The report adds that a company's country of ownership is not irrelevant, but the more important question is the location of value-added activities and creating the circumstances for this to happen in the UK.

BRITAIN IN BRIEF

Law Society seeks clearer legislation

The Law Society has called on the next government to adopt clearer and more user friendly legislation. In a detailed submission to the Hansard Society's commission on legislative reform, the society says the current law of England and Wales is contained in more than 3,000 statutes and thousands of secondary regulations which are very difficult to understand.

A considerable amount of time and money is wasted by business and individuals in trying to understand laws which should be clear and readily accessible in the first place, it says.

The law should be easy to find, easy to read and easy to understand. It should not be necessary to have to go to court for an authoritative interpretation of Parliament.

Group relocates tool company

Noble & Lund, the north of England company which is one of the famous names of the UK machine tool industry, is to become mainly an assembly operation after more than 100 years of manufacturing.

FMT Holdings, the owners, are transferring the manufacturing of Noble & Lund's large gantry-type milling machines and aerospace profiling machines to its base in southern England. Sixty manufacturing jobs have been cut at the Gateshead company, leaving 50 assembly and design workers.

The move is a response to the UK recession, which has led to a shortage of orders for Noble & Lund. Founded in 1880, it derives 80 per cent of its business from the UK, higher than the average for UK machine tool companies.

The close-knit UK machine tool industry has been rife with rumours that FMT was closing Noble & Lund. But Mr Mike Bright, FMT chairman, strongly denied this was the case.

CD pricing not to be referred

The Office of Fair Trading has decided not to refer manufacturers and retailers of compact discs to the Monopolies and Mergers Commission. Two separate OFT investigations into the prices charged by the retailers and producers of CDs failed to discover evidence of collusion sufficient to warrant a referral. An official announcement is expected this week.

The decision is a blow for the Consumers' Association which has been campaigning about the high price of CDs. It has complained that CD prices in the UK are far higher than those in the US.

The International Federation of the Phonographic Industry (IFPI), which represents the music companies, says that the average full-priced for discs is £11.99 in the UK last year, while in the US figure is some 50 per cent lower.

Pay rise to be implemented

Her Majesty's Stationery office is to implement a 4.7 per cent pay rise for 2,000 staff this week in a move it hopes will weaken the resolve of union members staging industrial action over pay. The two unions involved, the Civil and Public Services Association and the National Union of Civil and Public Servants, said that an overtime ban and work to rule were continuing. They are considering further ballots on selective strikes by key groups of workers.

The dispute is significant because HMSO was the first government agency to introduce a pay system outside of national bargaining in the civil service. The HMSO's proposed deal provides less than other civil servants have received in recent settlements.

Reports may be broadcast

A new business venture is offering companies the chance to broadcast annual meetings to shareholders on BBC Television. BMH Communications has signed a deal with BBC Select, the subscription arm of the BBC, for access to night time hours on both BBC 1 and BBC 2.

The service, being marketed as The Business Channel, would transmit company general meetings as if they were normal broadcasts so that no decoder or special equipment would be needed. Companies would be charged £60,000 an hour. Because the meetings would be broadcast in the early hours of the morning the aim would be to alert shareholders to set their video recorders.

Earl Spencer dies

Earl Spencer, the father of the Princess of Wales, died yesterday. He was 68. The Princess has been holiday with her husband and sons in Austria but the royal family will return to the UK today.

Consumer debt increases

By David Barchard

A SHARP rise in consumer indebtedness as a result of the recession is suggested by figures for county court judgments delivered in England and Wales last year.

The total number of judgments, made when someone defaults on a debt, usually in a consumer credit agreement, reached 1.8m in 1991, an all time record.

County court judgments are used by banks, retailers, and other consumer credit bodies when deciding whether or not to lend money to a particular individual.

Details of a judgment against a debtor are held for six years, during which time the person may find it very difficult to obtain credit.

Mr Malcolm Hurlston, chairman of the Registry Trust, said that the number of judgments awarded against consumers in the second half of last year was 7 per cent up on the same period last year.

Judgments against debtors during 1991 as a whole were 22 per cent up on 1990, but this may partly reflect the fact the procedures for notifying judgments to the Registry Trust were improved during the second half of 1990.

During the year, there were 67,000 searches of the registry's records for credit information.

NHS is dependent on charity funds

By Alan Pike, Social Affairs Correspondent

CHARITABLE fund-raising has assumed a "life-saving role" in the National Health Service, a report by the voluntary sector agency Directory of Social Change says today.

The report, which claims that charity is now being called on to finance capital projects and basic medical services, is likely to revive arguments over the adequacy of health service funding as the election campaign enters its third week.

"Many hospital appeals now stress that if not enough money is raised, lives will be lost," says the report.

It argues that the government's health reforms have played a significant part in changing the nature of charity in the NHS, with self-governing trust hospitals "leading the latest spurt in charitable fund-raising."

A consensus that charity should not finance services which were the proper responsibility of the state has "all but collapsed," says the report. Basic services which had been supported by charity included: building developments; equipping special care baby units; keeping operating theatres open; providing life-support machines and cardiac monitors, fitting ambulances with resuscitation equipment and training their crews.

More than 2,300 charitable funds for hospitals are now registered with the Charity Commission – five-times the pre-1980 level. The report estimates that total charitable income in the NHS is currently £370m a year, in addition to £265m spent by charities on medical research.

Charitable assets held by health authorities and self-governing trust hospitals are, says the report, worth £693m. It calculates that appeals by London hospitals alone are currently attempting to raise more than £100m.

Although the Charity Commission had advised that charitable money could not be used to meet statutory obligations it has recently registered as charities "organisations whose objects would appear to cover NHS core services."

The report says that hospitals' growing reliance on charitable income could have a number of implications in the internal market introduced under the government's health reforms. A hospital might either charge health authorities lower prices for charity-subsidised services – thus making the hospital more competitive – or charge the full price and make a surplus.

Successful charity fund-raising enabled hospitals to subsidise inefficient services or allow poor quality ones to "hobble along with the extra money thrown at them." The report claims that this is already happening in the medical research field. It says some hospitals which found it hard to win research grants had "launched major appeals to boost their income from charity."

Another possibility, says the report, is that successful charitable appeals could lead to a reduction in state finance for hospitals. "Under new funding arrangements in the internal market, some government claw-back when hospitals raise extensive local income seems inevitable."

Charity and NHS Reform, Directory of Social Change, Radius Works, Back Lane, London NW3 1HL £40 (£20 for voluntary organisations).

Stock lending inquiry launched

By Norma Cohen, Investments Correspondent

SECURITIES regulators are investigating allegations that a major UK fund manager had been lending the stock certificates of a pension fund client without the client's knowledge or permission.

The inquiries began after Mr John Quarrell, a pensions lawyer, wrote to his 30 largest pension fund clients on March 9 urging them to check on the security of their assets held by their custodian. He urged they consider a surprise visit to the custodian's premises at 9am and request stock certificates relating to their six largest investments.

Mr Quarrell cited in his letter the case of a pension fund client of a colleague who found that by 9.30 am, the custodian, who was also the fund manager, could only produce 25 to 30 per cent of the certificates.

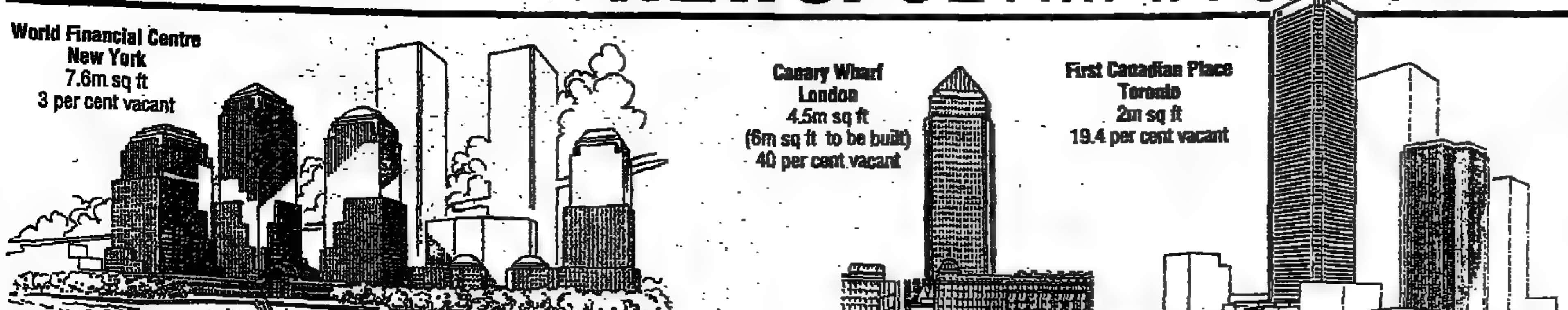
"Upon enquiry it became clear that the institution had been using the others for 'stock lending.' The fund in question had not authorised this activity," he wrote. The fund manager's actions not only raised questions about the breach of authority and the security of the assets, but suggested that it had been keeping for itself profits which rightly belonged to the pension fund. Neither the fund manager nor the pension fund were identified in the letter.

Mr Charles Nunnelly, a board member of Imro, the self-regulatory body for the fund management industry, said he formally notified Imro of the allegations and has asked that an investigation be launched. "It would be a very serious breach of rules. I hope Imro will take steps to investigate the matter," Mr Nunnelly said.

Mr Quarrell, who is a former chairman of the Association of Pension Lawyers, is also chairman of an industry sub-committee which is examining regulatory issues arising from the theft of assets from pension funds controlled by the late Mr Robert Maxwell. He said that since sending the letter, a number of his clients have followed his advice. While many have been satisfied about the security of their assets, several "are still awaiting answers."

The letter has raised what is becoming an increasingly contentious issue within the fund management industry – whether stock certificates should be designated in the name of the actual owner or be in the name of the fund manager. Mr Nunnelly, a director at Robert Fleming Asset Management, said "The suggestion to designate custody is extremely expensive and hampers administration of custody."

The use of designee names was recommended by a cross-party Commons select committee looking at pensions law reform following the collapse of the Maxwell company pension funds.



World Financial Centre
New York
7.6m sq ft
3 per cent vacant

Canary Wharf
London
4.5m sq ft
(6m sq ft to be built)
40 per cent vacant

First Canadian Place
Toronto
2m sq ft
19.4 per cent vacant

ITT Building
320 Park Avenue
New York
704,000 sq ft
100 per cent vacant

60 Broad Street
New York
1m sq ft
75 per cent vacant

Olympia Place
Orlando
400,000 sq ft
28 per cent vacant

Scotia Plaza
Toronto
1.5m sq ft
15 per cent vacant

Aetna Canada Centre
Toronto
688,372 sq ft
15.8 per cent vacant

Queens Quay Terminal
Toronto
368,000 sq ft
21.2 per cent vacant

55 Water St
New York
3.3m sq ft
22 per cent vacant

59 Maiden Lane
New York
931,677 sq ft
12 per cent vacant

Olympia Centre
Chicago
335,000 sq ft
15 per cent vacant

400 South Hope St
Los Angeles
661,756 sq ft
3 per cent vacant

Exchange Place
Boston
1.1m sq ft
3 per cent vacant

125 Broad St
New York
1.2m sq ft
33 per cent vacant

The Property Empire

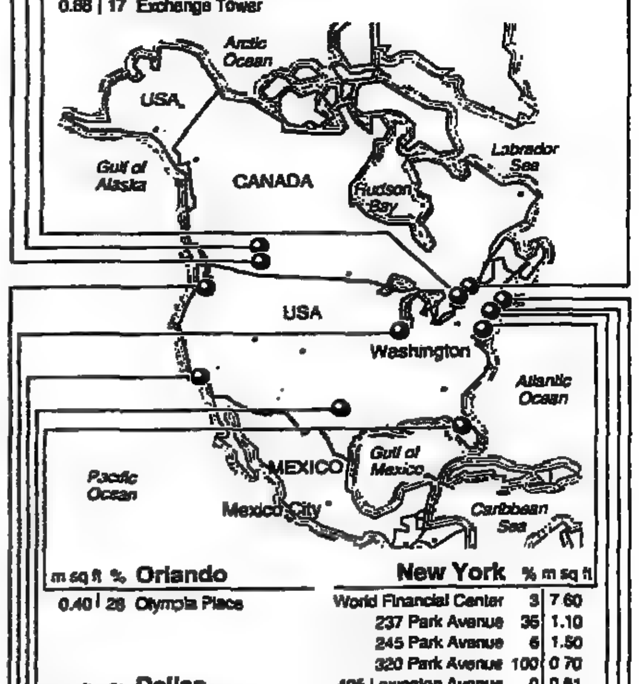
m sq ft	%	Calgary
1.50	12	Esso Plaza
0.69	0	Shell Centre
0.65	10	Amoco Building

m sq ft	%	Edmonton
0.60	28	City Centre Building

m sq ft	%	Toronto
2.05	19	First Canadian Place
1.50	15	Scotia Plaza
0.37	21	Queen's Quay Terminal
0.55	2	5140 Yonge Street
0.63	16	Aetna Canada Building
0.03	13	11 Adelaide Street
0.88	17	Exchange Tower

Ottawa	%	m sq ft
CD Howe Building	0	1.00
Esplanade Laurier	0	1.30

m sq ft total area in million square feet
% vacant space
Source: Agents in each city



m sq ft	%	Orlando
0.40	28	Olympia Place

m sq ft	%	Dallas
0.72	13	1999 Bryan Street

m sq ft	%	Los Angeles
0.66	3	400 South Hope Street
0.47	19	11601 Wilshire Blvd

m sq ft	%	Chicago
0.34	15	Olympia Centre

m sq ft	%	Portland
0.38	16	Koin Centre

New York	%	m sq ft
World Financial Center	3	7.60
237 Park Avenue	35	1.10
245 Park Avenue	6	1.50
320 Park Avenue	100	0.70
425 Lexington Avenue	0	0.81
1290 Ave of the Americas	7	2.00
60 Broad Street	75	1.00
125 Broad Street	33	1.20
55 Water Street	22	3.30
59 Maiden Lane	12	0.93
One Liberty Plaza	5	2.10
2 Broadway	38	1.60

Hartford	%	m sq ft
One Commercial Plaza	26	0.67
One Corporate Centre	42	0.38

Springfield	%	m sq ft
One Financial Plaza	10	0.25

Boston	%	m sq ft
Exchange Place	3	1.10

The Reichmann stock portfolio 1990/92

		% of company owned By O&Y	Market Value ($ million) 1990	1992	% change
Gulf Canada Resources	(Common)	75	1,164	520	-47.5
	(Preferred)	62	265	225	
Abitibi-Price		82	852	930	9.2
Trizec		35	857	375	-56.2
Trilon		10	96	25	-74.5
Camdev Corporation		86	3	33	1,000.0
Santa Fe Pacific		18	285	486	70.5
Catellus Development		15	114	100	-12.3
Santa Fe Energy		15	163	91	-44.2
Stanhope		33	117	32	-72.6
GW Utilities		89	940	487	-48.2
Rosehaugh		8	17	2	-88.2
Total			4,865	3,306	-32

Source: DBRS / Datastream

O&Y's RENTAL INCOME: Average asking rents in New York are $34 per sq ft, between $17 and $30 per sq ft in the rest of the US, $39 per sq ft in Toronto, $18 per sq ft in Edmonton and $12 per sq ft in Calgary. New tenants may pay as little as half the asking rent but some existing tenants pay more than the rents quoted. O&Y may get even less than half the asking rent in the US where rents include service charges and taxes, which can cost the landlord as much as $15 per sq ft.

A $20bn edifice shaken to its foundations

The Reichmann brothers built a property empire on drive and debts as big as that of some countries. But O&Y now faces a financial crisis and, next week, its bankers meet to bail it out. **Vanessa Houlder** and **Robert Peston** in London, **Bernard Simon** in Toronto and **Alan Friedman** in New York report.

MR PEN KENT is inured to companies running into difficulties. As a director of the Bank of England, his job is to prevent a corporate drama becoming a banking crisis.

But even he was shocked by what he was told a fortnight ago by Mr John Crow, the governor of the Bank of Canada.

Olympia & York, the world's biggest property developer with debts in excess of $20bn, had run out of cash.

The company, Mr Kent was told, had two immediate problems:

- Institutional investors were balking at being asked to repurchase hundreds of millions of dollars in commercial paper or debt securities, as they fell due for redemption;
- Cash was urgently required for the £3bn Canary Wharf project, Europe's biggest office development, in London's Docklands. A £40m first payment was due at the end of March for the Jubilee Line underground railway link extension to central London, crucial to the whole project.

"Until then, O&Y's had funded all these cash demands from rents and assets sales," says one banker. "But it was having trouble selling assets. O&Y was caught in a vice."

The alarm bells had started ringing on February 13, when Canada's Dominion Bond Rating Service downgraded the rating on one of O&Y's commercial paper offerings.

The Bank of England and the Bank of Canada were afraid of the consequences if O&Y defaulted on any significant payments.

If banks had panicked, the stability of the financial system would have been at risk, said to one regulator.

The cash crisis was the result of years of relentless expansion by Toronto's secretive Reichmann brothers, who had transformed a small tile-importer into a property empire spanning two continents and financed largely by debt.

It also underlined what many bankers seemed to have ignored: that the three brothers, famous for sealing their deals with a handshake, were not immune to the ups and downs of the marketplace.

By the time the two central bankers spoke, O&Y's debt had reached a staggering US$20bn. The sheer scale of debt came as a shock to O&Y's banks.

The fact that the Reichmanns kept their cards so close to their chests, once part of their mystique and perceived strength, may yet return to haunt the many banks and *other institutions* who lent them money.

"All the people who bought O&Y's bonds and lent money did so without knowing the full story," says one Toronto real estate adviser. Banks lent for specific property developments and were not given information on how much had been borrowed elsewhere for other projects.

In the week following the first alert, Mr Kent and Mr Crow kept in constant touch. They also alerted the Federal Reserve in New York.

Banks on both sides of the Atlantic were coralled into providing more than £100m in emergency loans to meet bills falling due in the coming month. Separate bank facilities were arranged to redeem the commercial paper.

The bankers finally came to a startling realisation. A fundamental restructuring of O&Y's debt was needed to tide the company over the deep property recession in the UK and north America.

The reorganisation of O&Y's borrowings will be the biggest corporate restructuring, dwarfing even last year's reorganisation of the $8bn of debt in Mr Rupert Murdoch's media business, News Corporation. As one banker puts it: "O&Y's debts are not so different from those of a medium size country."

The banks are bracing themselves for further shocks when they are supplied with detailed financial information on O&Y once the restructuring process gathers pace. Some of them now suspect that O&Y's assets, ravaged by the slump in property values, might not cover these debts. Three senior bankers estimated this weekend that O&Y's mortgages in New York alone could be up to a $1bn more than the current market value of the properties on which these debts are secured.

> **'All the people who bought O&Y's bonds and lent it money did so without knowing the full story,' says one Toronto-based real estate adviser**

The biggest surprise, according to one financier, may stem from O&Y's off-balance sheet liabilities, in the form of interest and currency swaps – two sophisticated but risky financial tools much used by the Reichmanns.

One O&Y adviser notes that currency hedges are used in one of the mortgages for New York's four-building World Financial Centre complex. The principal was denominated in Japanese yen and the interest is payable in US dollars. That particular swap generated profits for O&Y, but others are thought to have been less successful.

Another undisclosed but significant form of O&Y's borrowing is the so-called "vendor take-back mortgage", under which those who sold properties to O&Y provided *loans* to finance the deals.

Bankers are hopeful that none of them will face financial difficulties. Mr Allan Taylor, *chief exexcutive of Royal* Bank of Canada, one of the company's biggest creditors, said last week: "The O&Y problem is not life threatening."

One executive with close knowledge of O&Y's 100 or so banks, says that the biggest lender to O&Y is the Canadian Imperial Bank of Commerce with $1bn in debt. Royal Bank of Canada has $750m; Hongkong and Shanghai Banking Corporation, $700m; Citicorp, the US bank, around $500m; Crédit Lyonnais, the French bank, $350m; Bank of Nova Scotia, $300m; Bank of Montreal, $300m; and Chemical Bank, also of the US, $200m.

For years, the Reichmanns commanded a level of respect – almost awe – bestowed on few other leading business figures. But how were they able to borrow so much when they shared so little information with outsiders?

One US banker says: "You have to understand that in the past, Paul Reichmann [O&Y's chief executive just had make a telephone call. The man had a magic touch. He is very modest, very talented and a relentless salesman."

The Reichmanns' unobtrusive manner, their sobriety and their legendary reputation for always keeping their word – not to mention their spectacular early successes – fostered a rock-like confidence both in north America and abroad. Any deal with O&Y was thought to be a safe deal.

Living secluded lives in Toronto's Orthodox Jewish neighbourhood, near the intersection of Bathurst Street and Glencairn Avenue, Albert, Paul and Ralph Reichmann have never been social climbers, nor are they part of Canada's business mainstream. Their enormous houses are within walking distance of each other, although even the most senior executives of their non-real estate companies are rarely, if ever, invited to their homes.

The scale of the Reichmanns' ambitions since they arrived in Canada from Tangiers in the late 1950s is, literally, monumental.

Besides the £3bn Canary Wharf project in east London, – O&Y owns about 40 office buildings in north America, with 40m sq feet of space. It is the largest office landlord in New York and Toronto.

O&Y also has a 35 per cent stake in Calgary-based Trizec Corp, North America's biggest publicly-listed real estate company, and a minority interest in Catellus Development of San Francisco, a leading west coast housing developer.

Trizec alone owns more than 300 buildings. Its 113m sq ft of rentable space would fill 25 complexes the size of the existing buildings at Canary Wharf. *Trizec also owns 25 per cent of* The Rouse Company, one of the US's biggest shopping-mall developers.

The Reichmanns also have vast *interests* outside the real estate industry. The business from which it all started, Olympia Tile, has grown into one of North America's biggest tile and carpet distributors.

The brothers own 82 per cent of Abitibi-Price, one of the world's biggest newsprint producers, and are the largest single shareholders in Santa Fe Energy, a US oil and gas producer, and Santa Fe Pacific, whose businesses range from railways to gold mining.

The privacy of their home lives is replicated by an obsessive secrecy in their business dealings. O&Y is a privately-held family company. The board consists of the three Reichmann brothers, their wives and four trusted lieutenants recruited from O&Y's auditors more than 20 years ago.

The driving force is Paul Reichmann. One businessman who knows him well says: "Paul is a very likeable man – but behind the friendly exterior, there is a really tough man.He has enormous inner drive and commitment. He has no time for small talk."

Tom Johnson,left, and Robert 'Steve' Miller, the two top Wall Street executives hired by O&Y to mastermind the biggest restructuring of corporate debt in living memory, have two things in common. Both resigned in dismay from their previous employer and both enjoy reputations as top-notch bankers.

Paul Reichmann insists on being consulted on the smallest decisions affecting parts of the business empire.

One executive who worked with him says: "Paul knew every detail. He knew the type of marble, the mouldings on the iron work, the design of the hall and shops, the terms of every funding structure. He really understands the nitty-gritty".

But his refusal to delegate may also be a weakness. "He was taking too many decisions himself. There was no management structure in place," says one executive.

The Reichmanns made their mark in the late 1970s by paying rock-bottom prices for the so-called Uris package of eight buildings in Manhattan. The $320m portfolio grew ten-fold in value over the next decade, and the swelling cash flow from the buildings allowed O&Y to diversify.

Their star rose further with their far-sighted decision in the depths of the 1981-83 recession to press ahead with the construction of New York's World Financial Centre. The aura of invincibility created by these early successes has tended to overshadow later mistakes.

In 1989, O&Y lost millions by riding to the rescue of Campeau Corporation, the Canadian real estate company that had overstretched itself by buying two US retail groups. A former business associate says: "The Campeau deal was a turning point. It was a deal Paul didn't want to do, he did it to help out a friend. It was a deal too far".

O&Y also gambled on Olympia Place in Orlando, Florida, by building on the outskirts of the city. Today the building is 28 per cent vacant.

Many of O&Y's non-property investments have turned out to be less successful than the Reichmanns would have hoped. as the accompanying table shows.

But at the heart of O&Y's financial problems is what could turn out to be its biggest miscalculation – the £3bn project to develop the Canary Wharf office complex in east London's Docklands in 1987, just as the London property market was reaching its crest.

The Reichmanns misjudged the severity of the London market's decline again in 1988 and 1990, when they bought stakes in the London developers, Stanhope and Rosehaugh.

Canary Wharf remains a sub*stantial cash drain. O&Y* wooed tenants to the 4.5m sq ft Canary Wharf complex with generous incentives. However, 40 per cent of the building is *empty and may remain so for* some time.

Cash generated in North America has also been under pressure. As the recession has taken its toll, vacancy rates have risen.

Perhaps the starkest example of this is ITT's former head office at 320 Park Avenue, New York. With the exception of a small BMW showroom on the ground floor, the black-and-grey steel tower, adjacent to the Waldorf Astoria hotel, is deserted .

Generally, however, O&Y has been astute in its choice of sites, and this may yet help the Reichmanns. As the figures opposite show, compiled after extensive inquiries by the Financial Times in cities across north America, their record as landlords is no worse, and sometimes better than average.

Mr John Zuccotti, a former deputy mayor of New York who heads the group's US operations, says that, excluding the ITT building which represents their biggest failure so far, O&Y's vacancy rate in New York averaged only 10 per cent last December. Even if no expiring leases are renewed this year, the vacancy level would rise to only around 15 per cent.

But the bald figures tell only half of the story. As the market slumped landlords were forced to cut rents to keep existing tenants, and to offer juicy incentives to attract new ones. *Nominal asking rents may be* $20 or $30 a square foot in rent, but concessions can mean that tenants get the first three to four years of a 10-year lease *virtually rent-free.*

On top of that landlord also pay the service charges and taxes, which in New York can cost $15 per sq ft even before financing costs. Cash flow projections made two or three years ago have become meaningless.

With rents under pressure, the Reichmanns have also found that they can not easily dispose of assets to raise cash. The New York property market remains flat, with values now 30 to 40 per cent below their 1987 peak. Most property investors and bankers predict that values will not recover for another three years.

Even at depressed prices, there are few buyers for large, downtown office blocks. The same applies to O&Y's non-property investments. The stake in Interprovincial Pipe-Line, which is being sold to finance the forced retirement of the commercial paper programmes, fetched a price below the prevailing market level.

Until this latest crisis, the Reichmanns had been able to raise cash by seeking private partners for their projects. They did a deal late last year under which Hong Kong magnate Mr Li Ka Shing will help finance the renovation of 60 Broad Street in New York, in exchange for a 49 per cent equity stake. At the time, a joint statement said the transaction signalled "an important strategic alliance".

Mr Li may yet end up buying more O&Y assets. But in the short term, the Reichmanns' fate depends on the progress of debt restructuring talks. Repre*sentatives of 20 big interna*tional banks will meet in Toronto on April 6 to discuss the debt restructuring.

The banks will be forced to *make sacrifices. In any* restructuring, the banks will have to provide more money to O&Y to allow the completion of developments such as Canary Wharf.

They will be forced to defer interest payments until the property market recovers and O&Y's rental income increases. If they become particularly pessimistic about O&Y's prospects for generating income, they may have to convert some debt into equity. They may also find themselves owning *some of O&Y's buildings which* would be hard to sell in the present slump.

Although there is a risk that banks with small exposures will demand *immediate* repayment – which could sink O&Y, most bankers, property investors and regulators agree that the O&Y empire is probably safe.

There will be immense pressure from regulators on all banks to toe the line. In one sense, O&Y's weakness – the size of its debt – is *also its* strength. The collapse of the O&Y empire would cause unbearable losses.

■ *Additional research by Barbara Durr, Louise Kehoe and Theresa Byrne.*

Canary Wharf: a project too far?

YERBA BUENA, a huge 87-acre ***redevelopment in a run-down part of*** **San Francisco, should have been O&Y's next showcase.**

Described as the "last prime site" in San Francisco, it was large and ***bold enough to change the face of a*** **major city.**

But after a string of missed deadlines and reprieves, O&Y has lost its rights to build two skyscrapers and an entertainment complex. ***O&Y must*** **now find $2m by July or lose its right to build a 750,000 sq ft office tower.**

O&Y's attempt to hold on to the ***last vestiges of its original*** **involvement in Yerba Buena is a long way from its first mega-project in 1975: First Canadian Place, the 72-storey, 2m sq ft tower in the heart of Toronto's financial district.**

It is even further removed from the project which put O&Y into a league of its own – the World Financial Centre, a $1.5bn, 8m sq ft complex on ***a vast landfill site, south of Wall*** **Street.**

The Reichmanns' bid to develop the whole site in 1980 was a monumental gamble. Other developers wanted to test the market, one building at a time. They said O&Y would never attract leading tenants on that scale. The incentives offered to tenants seemed crazily generous. It was bound to fail, they said.

The Reichmanns thought the sheer scale would attract leading tenants. They were right. Wall Street firms were on the threshold of meteoric growth. The project proved a spectacular success.

O&Y's next blockbuster, Canary Wharf, was not so successful and much may yet depend on its fate.

The project appeared to offer all the ingredients that made the World Financial Centre a hit: cheap land, tax breaks and scale. London was growing at break-neck pace and most of its offices were out-dated slums. Canary Wharf seemed an unmissable opportunity to repeat a winning formula.

But Canary Wharf dwarfed even the World Financial Centre in its ambition. It was attempting to create a third new business centre for London at a stroke, something no other developer was prepared to attempt.

The World Financial Centre was three minutes walk from Wall Street. Canary Wharf was two and a half miles from the city. The transport links that O&Y were counting on have been painfully slow to arrive.

Attracting new tenants was always going to be an uphill struggle. The collapse in the London property market made it infinitely harder.

Two years ago, Canary Wharf's asking rent was £30 per sq ft – half City rates. Now City rents have halved and there is a glut of high-quality modern offices, making it much harder for Canary Wharf to compete.

The project is 40 per cent unlet, and is not producing nearly enough income to service its debt.

The development so far is probably worth considerably less than the £1.3bn it cost to build. Canary Wharf tower was recently valued at £680m and 10 Cabot Square was valued at £215m. But this does not take account of the project's empty space and it probably over-estimates O&Y's ability to use its tax breaks.

Buildings that have been started will be finished, but the remainder – another 6m sq ft of space, costing another £1.7bn – has an uncertain future.

THE WEEK AHEAD

ECONOMICS

Search for further signs of recovery in the US

THE last two months have seen some signs of recovery in the US. The question this week *is whether these positive point*ers will continue into those relating to March.

New home sales rose by 12.9 per cent in February, while the National Association of Purchasing Managers (NAPM) sur*vey for February pointed to* a slightly more upbeat assessment in the outlook among manufacturers.

The consensus of analysts' forecasts compiled by *MMS* International, the business *information group, suggests* that both trends will continue.

Friday's labour market data for March should show no further increase in unemployment *from February's 7.3 per cent.* In February 164,000 jobs were created, the highest number for two years. According to research by Midland Montagu, *however, nearly all the* employment growth in February was in services, with a big proportion of the new jobs concentrated in retail trade.

Increases in manufacturing were more meagre – February produced only 12,000 new jobs in the sector as a whole. Midland Montagu believes manufacturers that will probably raise employment during March in response to an increase in orders and strong consumer spending in February.

Several important inflation *indicators will be released in* Europe. With Germany's preliminary cost of living index for March expected to show annual inflation at 4.7 per cent, up from 4.3 per cent *in February*, the Bundesbank will not want to relax its high interest rate policy for the time being.

Unemployment data is also due in Germany. The contin*ued rise in unemployment* reflects the weakness of the economy – West German unemployment has been badly affected by weak manufacturing production and high inflows of immigrant workers.

In the UK there *is virtually* no economic data and certainly *none* that politicians will attempt to latch onto as the election campaign enters its third week.

Highlights of the week ahead, with the *median of City* forecasts in brackets from MMS International, a financial information company, include:

Today: US, February new home sales; Denmark, *fourth* quarter GDP; Canada, January employment earnings.

Tomorrow: US, Federal Open Markets Committee meeting, February leading indicators (up 0.8 per cent), March con*sumer confidence* (52 per cent), March agriculture prices, March Chicago National Association of Purchasing Managers index; Japan, February *unemployment rate,* February construction orders, February construction starts, February housing starts (down 10 per cent on year); Australia, February *building approvals (down* 1.5 per cent); Canada, January GDP at factor cost, January building permits; Sweden, 1991-2 Government supplementary Budget request.

Wednesday: US, March *National Association of Pur*chasing Managers index (53.5 per cent), February construction spending (up 1 per cent); Japan, March Forex Reserves; Switzerland, *March 23-31 sight* deposits; Australia, February *current account seasonally* adjusted (-A$1bn), non-seasonally adjusted (-A$.72bn).

Thursday: US, February fac*tory* goods orders (up 0.3 per cent). February factory goods shipments, M1 (-$1.5bn), M2 (-$1bn), and M3 (-$5bn), for week ended March 23, initial claims for week ended March 21 (440,000); Germany, Bundes*bank council meeting;* UK, March official reserves (-$100m); Canada, January leading indicator.

Friday: US, March unemployment rate (7.3 per cent), March hourly earnings (up 0.3 per *cent*), *March average work* week, March non-farm payrolls (67,500), March manufacturing payrolls (10,000), minutes of Federal Open Market Committee meeting *of 4-5 February* released; Germany, Bundesrat to decide on Bundesbank restructuring, March unemployment – West (up 10,000), February employment – West (up 2,000), March vacancies – West (flat), March unemployment – East, March short time work – East; Denmark, February trade balance excluding ships (DKr1.5bn); *Japan*, February trade balance, February current account, both IMF basis, February bond investment; Canada, March foreign reserves.

During the week: Germany, January industrial production (down 1.2 per cent), January manufacturing output (down 1 per cent), January manufacturing orders (down 1 per cent), March preliminary cost of liv*ing (up 0.3 per cent on month,* up 4.7 per cent on year); Switzerland, March Zurich CPI; Italy, March CPI (up 0.4 per cent on month, up 5.5 per cent on year); France, February M3 centred moving average (up 0.4 *per cent).*

Emma Tucker

RESULTS DUE

Lucas Industries, one of the UK's largest engineering groups, is likely to announce a *further decline in half-yearly* profits on Monday. Indeed, some brokers are predicting only break even, although it is still thought the 2.1p dividend will be maintained.

Harassed, on the one hand, *by poor demand in the automo*tive and aerospace industries, but under pressure, on the other, to keep up research and investment spending, Lucas is trapped between recession and creating a base for its future fortunes.

Full-year figures from MB-Caradon, the building products group, on Monday are expected to show pre-tax profits edging ahead to perhaps £104m (£101.7m) in 1991, in spite of the recession. *After a 12 per cent* profit fall at the interim stage to £47.2m, this would suggest a better second half.

The group's quarter share in *CMB Packaging*, the European packaging group, will contribute more following management changes there, but the proceeds of the £149m rights issue launched last October will barely have arrived by the year end. *A maintained total* dividend of 8.5p is expected.

Also on Monday, Inchcape, the international motor distributor, marketing and business services group, is expected to report annual pre-tax profits up from £174m to £180m, in line with the forecast made in December when it had a £376m rights issue to fund the acquisition of Tozer Kemsley & Millbourn (TKM).

Interest will focus on how *the motor distributor* and retailer is being bedded in and what effect the Budget's halving of car tax has had on *sales* by Inchcape, one of the UK's *biggest car* distributors. Mr Charles Mackay, the new chief executive, will also report on how the process of organising Inchcape into global business streams is progressing.

London Weekend Television, *which retained its franchise* at the bargain basement price of £7.58m, is expected to unveil a good set of results on April Fool's Day.

Analysts are predicting pretax profits of between £19m and *£21m for 1991*. The outcome could be at the high end of expectations and perhaps even modestly up on last year's £20.7m. Such a result would be a considerable achievement in a recession.

LWT, in common with other ITV companies, will almost certainly be trying to reduce *costs further*, so *some* provision for redundancies could reduce the headline profit figure.

On the same day **Harrisons and Crosfield**, the chemicals, building supplies and feedstock conglomerate, *is expected* to show a further fall in pre-tax profit to roughly £75m for 1991 from £106m.

Its Harcros builders' merchants chain has been vulnerable to the slump in house building and in house moves, while part of the chemicals *division is also construction* related. The more resilient food and agriculture businesses are too small to have offset declines in other divisions.

But the big question is: will Harrisons maintain an uncov*ered dividend?* The betting seems to be yes, just about.

Sun Alliance, the *biggest* of the composite insurance groups, is set to *post a pre-tax* loss of between £420m and £470m *when its* reports its 1991 results on Thursday.

Sun is the market leader in domestic mortgage indemnity insurance and has been forced to make increased *provisions* as a result of rising repossessions. Some *analysts suggest* that the group may not increase its final dividend.

Full-year results from **William Baird**, the textiles company, are expected to show a fall in pre-tax profits from £33.8m to about £25m on Thursday. The textiles operation, with Marks and Spencer as a big customer, is a steady *performer*. But Darchem, the engineering division, has suffered badly during the recession.

UK COMPANIES

■ TODAY
BOARD MEETINGS:
Finals:
Alexon Grp.
Avonmore Foods
Boxmore Int.
Capital & Regional Properties
Computer People
Edinburgh Fund Mngrs.
Inchcape
MB-Caradon
Pearson
Rutland Tst.
Wilson (Connolly)
Interims:
Lucas Inds.
Sycamore Hldgs.

■ TOMORROW
COMPANY MEETINGS:
Allied Textile, Highburton, Huddersfield, 12.00
Eurocopy, Cedar Court Hotel, Denby Dale, Caldergrove, Wakefield, 12.00
Heavitree Brewery, Trood Lane, Matford, Exeter, 11.30
Yeoman Inv. Tst., 11, Devonshire Square, E.C., 12.30
BOARD MEETINGS:
Finals:
Acsis
Anglo Pacific Res.
BNB Res.
Bilston & Battersea
Clinton Cards
Croda Int.
Estates & General
European Project Inv. Tst.
Garton Eng.
Gaskell
Hay (Norman)
Headlam
Jacobs (John I.)
Johnston Press
Macfarlane Grp. (Clansman)
Mayflower
Mowat Grp.
Tyne Tees Television
Interims:
AB Elect. Prods.
Baillie Gifford Japan Tst.
TIP Europe
Trafford Park Estates

■ WEDNESDAY APRIL 1
COMPANY MEETINGS:
General Cons. Inv. Tst., 49, Hay's *Mews, W.*, 2.45
Life Sciences Int., Chartered Insurance Institute, 20, Aldermanbury, E.C., 2.30
Securicor, Richmond Hill Hotel, Richmond, Surrey, 12.30
Security Services, Richmond Hill Hotel, Richmond, Surrey, 12.15
BOARD MEETINGS:
Finals:
Ash & Lacy
Harrisons & Crosfield
Hogg Grp.
House of Lerose
North British Canadian
Rademec
Senior Eng.
Sherwood Computer
Interims:
Leo Refrigeration

■ THURSDAY APRIL 2
COMPANY MEETINGS:
London Forfaiting, International House, 1, St. Katherine's Way, E., 12.00
Throgmorton Tst., Merchant Taylors Hall, 30, Threadneedle Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Assoc. Fisheries
Baird (Wm.)
Campari Int.
Dawson Grp.
Great Southern Grp.
Hewden Stuart
Home Counties Newspapers
Lon. & Manchester Grp.
Pelon
Scholl
Scottish Heritage Tst.
Spirax-Sarco
Sun Alliance
Telemetrix
Tilbury Douglas
Trans World Comms.
Interims:
Barry Wehmiller
Manchester Utd.

■ FRIDAY APRIL 3
COMPANY MEETINGS:
Derby Tst., Hesketh Houyse, Portman Square, W., 11.00
Holmes & Marchant, *Brands* House, Kingshill Road, High Wycombe, 9.30
Lowe (Robert H.), *Roldane Mills*, Congleton, Cheshire, 10.00
BOARD MEETINGS:
Finals:
Brabant Res.
Johnston Grp.
Kingspan
Scottish Television
Usher Walker
Interims:
China & Eastern Inv. Tst.
Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Bank fur Arbeit und Wirtschaft Sb. Fltg. Rate Nts. 2000 $290.69
Bass 10⅛% Db 2016 5 1/16pc.
Fleming Overseas Inv. Tst. 1.5p
Fletcher Challenge 7p
Grindlays Eurofinance Fltg. Rate Nts. 1992 $300.17
Halifax Bldg. Society Fltg. Rate Ln. Nts. 1996 (Ser.B) £255.28
Mountview Estates 8p
Newman Tonks 5.5p
OKI Elect. 6.5% Bd. 2000 Y100000.0
Pacific Horizon Inv. Tst. 0.729p
Scotland Int. Fin. Gtd. Fltg. Rate Nts. 1992 $146.93
Tilley Int. 8.4% Cm. Rd. Pf. 4.2p
Treasury 15½% Ln. 1998 7¾pc.

■ TOMORROW

ABB Kent 6% Db. 1988/93 3pc.
Do. 7¾% Db. 1988/93 3⅞pc.
Do. 8% Un. Ln. 1988/93 4pc.
API 3.85% Cm. Pf. 1.925p
Aerlinte Eireann Teoranta 10½% Stlg. Db. 1991/96 5¼pc.
Alex & Alex 25cts.
Alexon Cv. Cm. Rd. Pf. 3.125p
Allied Radio 8% Cv. Un. Ln. 2001 4.12065pc.
Allnatt London Prop. 9¼% 1st Mtg. Db. 1998/*2001 4⅝pc.*
Anglo Utd 0.2p
Ashley Cm. Rd. Cv. Pf. 4.125p
Assoc. Brit. Eng. 4.9% Cm. Pf. 2.45p
Do. 8% Cm. Cv. Rd. Pf. 4p
Atlantic Metropolitan 12% Cv. Un. Ln. 1991/97 6pc.
Audax Prop. 11% 1st Mtg. Db. 2021 5½pc.
Automotive Products 3.5% Cm. Pf. 1.75p
Do. 4.55% Cm. 2nd Pf. 2.275p
Do. 9% Cm. Pf. 4.5p
Barrow Hepburn 7.75% Cm. Pf. 3.875p
Bass Invs. 7⅜% Un. Ln. 1992/97 3 11/16pc.
Bass 3¼% Db. 1987/92 1⅝pc.
Do. 8¼% Db. 1987/92 4⅛pc.
Do. 10.65% Db. 1996/99 5.325pc.
Do. 4½% Un. Ln. 1992/97 2¼pc.
Do. 7¾% Un. Ln. 1992/97 3⅞pc.
Bemrose 7½% Cm. Pf. 2.625p
Berkeley Govett 13.5cts.
Bibby (J.) 4.2% Cm. Pf. 2.1p
Blue Circle Home Products 7½% Un. Ln. 1987/92 3¾pc.
Blue Circle 5¾% 2nd Db. 1984/2009 2⅞pc.
Boddington 4% Db. Perp. 2pc.
Boots 7¾% Un. Ln. 1988/93 3⅞pc.
Boot (Henry) Cm. Pf. 2.625p
Bowater 7.75% Cv. Cm. Pf. 3.875p
Bowthorpe 8% Db. 1988/93 4pc.
Bristol Evening Post 10¼% Mtg. Db. 1991/96 5⅛pc.
Bristol & West Hotels 7¼% 1st Mtg. Db. 1987/92 3⅝pc.
Brit. Airways Cap. 9¾% Cv. Cap. Bd. 4.881644pc.
Brit. Assets Tst. 4½% Pf. 1.575p
Do. A 5% Pf. 1.75p
Do. 6% Un. Ln. 1995 3pc.
Brit. Inv. Tst. 11.125% Sec. Db. 2012 5.5625pc.
Brit. Land 10½% Dfd. 1st Mtg. Db. 2019/24 5¼pc.
BAT 5% Cm. Pf. 1.75p
Brixton Estate 11.75% 1st Mtg. Db. 2018 5.875pc.
Brockhampton N/Vtg. 9½% Rd. Pf. 1996 4.75p
Brown (John) 5⅝% Sec. Ln. 2003 2 13/16pc.
Do. 4⅞% Sec. Ln. 2003 2 7/16pc.
Bruntcliffe Invs. 7% Cm. Pf. 2.45p
Burtonwood Brewery 8¼% Db. 1989/94 4⅛pc.
Cable & Wire 7% Cv. Un. Ln. 2008 3½pc.
Cap. & Counties 6¾% 1st. Mtg. Db. 1994/99 3⅜pc
Do. 6¼% 1st Mtg. Db. 1993/98 3⅛pc.
Central Fin. 6¼% Cv. Bd. 1995 3⅛pc.
Chillington 12% Cv. Un. Ln. 2001 6pc.
Churchbury Estates 9% Un. Ln. 2000 4½pc.
City Site Estates 10% Cv. Cm. rd. Pf. 1p
Do. 5.25% Cv. Cm. Rd. Pf. 2.625p
Do. 10½% 1st Mtg. Db. 2017 5.25pc.
City & Comm. Inv. Tst. 5.67p
Cleveland Place 5% Rd. Db. 2000 2½pc.
Do. 10½% Rd. Db. 1990/95 5¼pc.
Do. 12¾% Rd Db. 2008 6⅜pc.
Do. 6½% Rd. Db. 1988/93 3¼pc.
Coats Viyella 4.9% Cm. Pf. 2.45p
Collateralised Mortgage Sec. (No.8) Mtg. Bckd. Fltg. Rate Nts. 2028 £276.44
Do. (No.11) Class A 2028 £276.47
Combined Elect. Mfg. 6% 1st Mtg. Db. 1987/92 3pc
Commerzbank O'seas Fin. 9⅝% Nts. 1992 4 13/16pc.
Contl Bank 15cts.
Contl *Illinois* O'seas Fin. Gtd. Fltg. Rate Sb. Nts 1994 $132.71
Cooper (F.) Cv. Rd. Cm. Ptg. Pf. 3.25p
County Smaller Co's Inv. Tst. 1.125p
Courtaulds Coatings 8¼% Un. Ln. 1990/95 4⅛pc.
Courtaulds 7¾% Db. 1989/94 3⅞pc.
Do. 7¾% Un. Ln. 2000/05 3⅞pc.
Courts (Furnishers) 5.9% Cm. Pf. 2.95p
Cowie (T.) 10½% Cv. Rd. Cm. Pf. 5.25p
Credit Foncire de France 14¾% Gtd. Ln. 2007 (Br) 7⅜pc.
Do. (Reg) 7⅜pc.
DAKS Simpson 5% Cm. Pf. 1.75p
De La Rue 2.45% Cm. Pf. 1.225p
Debenhams 6¼% 2nd Db 1990/95 3⅛pc.
Devenish (J.A.) 3.85% Cm. Pf. 1.925p
Do. 4.5% Cv. 2nd Pf. 2.25p
Dowty 7% Cv. Cm. Rd. Pf. 3.5p
Drayton English & Int. Tst. 8.875% Cm. Pf. 4.4375p
Do. 3.85% Cm. Pf. 1.925p
Do. 10⅝% Db. 2014 5 5/16pc.
Drayton Far Eastern Tst. 0.5p
Drummond 8% Cm. Pf. 2.8p
Dyson (J & J) 7½% Un. Ln. 1987/92 7.5pc.
Eastern Int. Inv. Tst. 9½% Db. 1992/97 4¾pc.
Eldridge Pope A 3.875pc.
Elliott (B.) 6½% Db. 1988/93 3¼pc.
Do. 7¼% Db. 1990/95 3⅝pc.
Emhart 6% Cm. Pf. 2.1p
Empire Stores 8¾% Db. 1991/96 4⅜pc.
Engelhard 20cts.
Erskine House Cv. Cm. Rd. Pf. 3.625p
Euston Centre Prop 10.4% 1st Mtg. Db. 1992/97 5.2pc.
Ewart 8½% Un. Ln. 1990/95 4¼pc.
Fidelity Euro Values Eq. Lkd. Un. Ln. 2001 £1.3477
Fisons 5⅞% Un. Ln. 2004/09 2 15/16pc.
Foreign & Col. Inv. Tst. 5% Cm. Pf. 1.75p
Foreign & Col *Eurotrust* 5¾% *Cv. Un. Ln.* 1996 2⅞pc
Forminster 11% Cm. Pf. 5.5p
GATX 32.5cts
GEI Int. 10% Un Ln. 1987/92 5pc.
GKN 7¾% Gtd Db. 1987/92 3⅞pc.
Gartmore Value Invs. 0.925p
Gen. Cons. Inv. Tst. 5½% Cm. Pf. 1.925p
Gen. Elect. O'seas Cap. 5½% Stlg/$ Cv. Gtd. Ln. 1985/93 2¾pc.
GEC 2.55p
Do. 7¾% Un. Ln. 1988/93 3⅞pc.
Glynwed Int. 10¾% Un. Ln 1994/99 5⅜pc.
Govett Strategic Inv. Tst. 11½% Db 2014 5¾pc.
Grainger Tst. 11¾% 1st Mtg Db. 2024 5⅞pc
Great Portland Estates 8¼% *1st Mtg. Db. 1990/95 4⅛pc.*
Do. 9.5% 1st Mtg. Db. 2016 4.75pc.
Do 10¾% 1st Mtg. Db. 2021 4.3295pc.
Greenalls 8% Cm Pf. 4p
Greenhaven Sec 7½% Un. Ln. 1991/96 3¾pc.
Gresham Tst. 6½% Gtd. Un. Ln. 1988/93 3¼pc.
Do *8% Gtd. Un Ln. 1988/93 4pc.*
Greycoat 12.85% Un. Ln 1990/92 6.425pc.
Grosvenor Dev. Cap 7½% Cv. Un. Ln. 1999 3¾*pc.*
Halma 11% Cm. Pf. 5.5p
Hampton Tst. 10½% 1st Mtg. Db. 2025 5¼pc.
Haslemere Estates 10¼% *1st Mtg. Db. 1998/*2003 5⅛pc.
Hestair Consumer Prods. 6% Un. Ln. 1985/95 3pc
Hewetson 1.6p
Higgs & Hill 8% Un Ln. 1989/94 4pc.
Hill & Smith 14% 1st Mtg. Db. 2000/03 7pc.
Homer Fin Class A Mtg. Bckd. Fltg. Rate Nts 2028 £267.60
Do. Class B £523.22
Housing Fin. Corp.5% Db. 2027 2½pc.
Do. 7% Db. 2007 3½pc.
Do. 7% Db. 2009 (Ser.2) 3½pc.
Hoyle (J.) 5% Cm. Pf. 1.75p
IMI 8¼% Un. Ln. 1987/92 4.125pc.
Inchcape 10½% Un. Ln. 1990/95 5¼pc.
Do 12½% Un. Ln. 1993/98 6¼pc.
Inco Eng. 11% Db. 1996/2001 5½pc.
Do. 8% Db. 1987/92 4pc.
Investment Co. 6% Cm. Pf. 1.05p
Investors Cap. Tst. 7¼% Db. 1992/97 3⅝pc.
Johnson & Firth Brown 11.05% Cm. Pf. 5.525p
Do. 11% Un. Ln. 1993/98 6.42pc.
Johnston Grp. 10% Cm. Pf. 5p
Jones Stroud 10% Cm. Pf. 5p
Kelsey Inds. 11¼% Cm. Pf. 5.625p
Keystone Inv. 5% Cm. Pf. 1.75p
Kleinwort Benson Fin. Gtd. Fltg. Rate Nts. 1996 $298.65
Land Sec. 9% 1st Mtg. Db. 1996/2001 4½pc.
Do. 6¼% 1st Mtg. Db. 1993/98 3⅛pc.
Do. 10% 1st Mtg. Db. 2025 5pc.
Do. 1st Mtg. Db. 2027 4.9863pc.
Do. 8½% Un. Ln. 1992/97 4¼pc.
Do. 6⅞% Un. Ln. 1992/97 3 7/16pc.
Laporte 7½% Cm. Pf. 2.625p
Do. 5½% Cm. 2nd Pf. 1.925p
Do. 10¼% Db. 1994/99 5⅛pc.
Do. 5¾% Db. 1988/93 2⅞pc.
Do. 8% Db. 1993/98 4pc.
Lawrence (W.) 8.5% Cv. Cm. Rd. Pf. 4.25p
Leigh Interests 6% Cv. Cm. Rd. Pf. 3p
Lon. American Ventures Tst. 4% Cm. Pf. 2p
Lon. Cremation 10% Cmn. Pf. 3.5p
Lon. Merchant Sec. 10% 1st Mtg. Db. 2018 5pc.
Do. New 1.9452pc.
Lonrho 10¼% 1st Mtg. Db. 1997/2002 5⅛pc.
Lookers 8% Cv. Cm. Rd. Pf. 4p
Lovell (Y.J.) 8½% Db. 1987/92 4¼pc.
MEPC 3.65% Cm. Pf. 1.825p
Do. 8% Un. Ln. 2000/05 4pc.
Do. 9¾% 1st Mtg. Db. 1997/2002 4⅞pc.
Do. 12% 1st Mtg. Db. 2017 6pc.
Macarthy 6% B Cm. Pf. 2.1p
Do. 5½% B Cm. Pf. 1.925p
Marston Thompson Evershed 4¼% Rd. Db. *1992 1.0566939pc.*
Do. 7% Un. Ln. 1993/98 3.5pc.
McCarthy & Stone 7% Cv. Un. Ln. 1999/2004 3½pc.
Merlin Int. Green Inv. Tst. 1.65p
Michelin Tyre 9½% Db. 1992/97 4¾pc.
Milk Marketing Board Fltg. Rate Nts. 1993 £157.53
Morland 5% Cm. Pf. 1.75p
Morris Ashby 1.7p
Mountleigh 6½% Cm. Pf. 4.55p
Mucklow (A & J) 6¾% 1st Mtg. Db. 1989/94 3⅜pc.
Do. 13¾% 1st Mtg. Db. 2000/05 6⅞pc.
Do. 7½% 1st Mtg. Db. 1990/95 3¾pc.
NEC Finance 10⅝% Db. 2016 5.3125pc.
Do. 13⅝% Db. 2016 6.8125pc.
NMC Cm. Rd. Cv. Pf. 3.675p
National Power 3p
New Frontiers Dev. Tst. 6½% Cv. Un. Ln. 2010 3¼pc.
New Kleinfontein 16cts.
New Throgmorton Tst. 12.6% Db. 2008 6.3pc.
Newcastle-upon-Tyne 11¼% Rd. 2017 5⅝pc.
Northern Eng. 8⅝% Un. Ln. 1988/93 4 5/16pc.
Northern Telecom 9cts.
Oldham Met. Borough Council 12.4% Rd. 2022 6.2pc.
Oliver 5.25% Cm. Pf. 2.625p
P & O Prop. 6¾% 1st Mtg. Db. 1989/94 3⅜pc.
Do. 8% Un. Ln. 1997/99 4pc.
Do. 7¼% 1st Mtg. Db. 1991/96 3⅝pc.
Palmerston Hldgs. 0.8p
Pearson 8.25% Un. Ln. 1988/93 4.125pc.
Do. 5.675% Un. Ln. 1988/93 2.8375pc.
Do. 6.975% Un. Ln. 1988/93 3.4875pc.
Peel South East 8¼% Un. Ln. 1987/97 4⅛pc.
Petroleos Mexicanos 14½% Ln. 2006 7¼pc.
Phoenix Timber 6% Cm. Pf. 2.1p
Portsmouth Water 14% Db. 1992 7pc.
Do. 3½% Perp. Db. 1¾pc.
Do. 3% Perp. Db. 1½pc.
Do. 13% Rd. Db. 1994 6½pc.
Do. 10⅝% Rd. Db. 1995 5 5/16pc.
Prop. Hldg. & Inv. Tst. 7% 1st Mtg. Db. 1990/98 3½pc.
Pubco 11¼% Sev. Db. 2006 7.3048pc.
Do. New 2.0959pc.
Public Service Enterprise 54cts.
RIT Cap. Partners 2.5% Cv. Un. Ln. 2000 1.25pc.
Readicut Int. 6% Cm. Pf. 1.05p
Do. 5¾% 2nd Cm. Pf. 2.0125p
Do. 8¾% Un. Ln. 1988/93 4⅜pc.
Reckitt & Colman Cap. Fin. 9.5% Cv. Cap. Bd. 2005 4.75pc.
Renold 6¾% 1st Db. 1990/95 3⅜pc.
Richards 7½% Db. 1987/92 3¾pc.
Rights & Issues Inv. Tst. Cap. 0.4p
Do. Inc. 5.8p
River & Mercantile Tst. 8½% Db. 1989/94 4¼pc.
Rockware 8% Un. Ln. 1995/99 4pc.
Royal Bank of Scotland Ser. A Non. Cm. $ Pf. 70.3125cts.
Do. Ser. B 70cts.
Ruston & Hornsby 8% Db. 1987/92 4pc.
600 Grp. 3.15% Cm. Pf. 1.575p
Do. 4.55% Cm. 2nd Pf. 2.275p
Do. 8½% Un. Ln. 1987/92 4¼pc.
Do. 11% Un. Ln. 1992/97 5½pc.
S & U Stores 6% Cm. Pf. 2.1p
SEP Ind. Pf. 0.9565p
Salvesen (C.) 5.6% Cm. Pf. 2.8p
Savoy Hotel 8½% Un. Ln. 1993/98 4¼pc.
Scantronic 5.75% Cv. Cm. Rd. Pf. 2.875p
Scapa 8% Un. Ln. 1988/93 4pc.
Scholl 8⅞% Cm. Pf. 2001/05 4.4375p
Do. 5¼% Cv. Cm. Pf. 2001/11 2.625p
Scot. Cities Inv. Tst. 5% Cm. Pf. 2.5p
Scot. Mortgage & Tst. 6-14% Stppd. Int. Db. 2020 7pc.
Scot. National Tst. Stppd. Pf. 3.038765p
Do. 10% Db. 2011 5pc.
Scot. & Mercantile Inv. Tst. 7½% Cm. Pf. 2.625p
Sec. Tst. of Scot.4½% Cm. Pf. 1.575p
Do. 12% Db. 2013 6pc.
Senior Eng. 9.6% Un. Ln. 1991/96 4.8pc.
Shires Inv. 11% Cv. Un. Ln. 2003/04 5½pc.
Smith New Court 12% Sb. Un. Ln. 2001 6pc.
Smith St. Aubyn 6% Non Cm. Pf. 2.1p
Do. 9½% Cm. 2nd Pf. 4.75p
Smith (W.H.) 5¾% Cm. Pf. 2.875p
Do. 3¾% Cm. Rd. Pf. 1.875p
South African Breweries 6.2% Cm. Pf. 6.2cts.
Do. 7% Rd. Cm. Pf. 1.4cts.
Stag Furniture 11% Cm. Pf. 5.5p
Standard Chartered 12⅞% Sb. Un. Ln. 2002/07 6 7/16pc.
Staveley 5¼% *Cm. Pf. 1.8375p*
Do. 7½% Un. Ln. 1988/93 3¾pc.
Sterling Estates 8% 1st Mtg. Db. 1988/93 4pc.
Sterling Inds. 1st Pf. 1.925p
3i 7¼% A Db. 1991/94 3⅝pc.
Do. 9% A Db. 1991/94 4½pc.
THFC (Indxd) 5.65% I.L. 2020 3.1135p
TSB Perp Fltg. Rate Nts. £287.78
TSB Hill Samuel Bank 8% Un. Ln. 1989/94 4pc.
Tate & Lyle 6½% Cm. Pf. 2.275p
Do. 7¾% Db. 1989/94 3⅞pc.
Do. 10¾% Un. Ln. 2003/08 5⅜pc.
Do. 8% Un. Ln. 2003/08 4pc.
Temple Bar Inv. Tst. 6.5p
Trafford Park Estates 11¾% 1st Mtg. Db. 2007/10 5⅞pc.
Transport Dev. 9¼% Un. Ln. 1995/2000 4⅝pc.
Treforest Silk Printers 6% Non-Cm. Pf. 2.1p
Trimoco Fin. 11½% Cv. Un. Ln. 1996 5¾pc.
Unigate 4.95% Cm. Pf. 2.475p
Do. 3.9% Cm. Pf. 1.95p
Do. 5% Un. Ln. 1991/96 2½pc.
Do. 6½% Un. Ln. 1991/96 3¼pc.
VSEL Consortium 11% Un. Ln. 1996 5½pc.
Vickers 5% Cm Pf. 2.5p
Do. 5% Pf. 1.75p
Do. Pf. 5% 1.75p
Volex 7% Cm. Pf. 2.45p
Warburg (S.G.) 7⅝% Cm. Pf. 3.8125p
Do. 6% Cv. Pf. 3p
Wells Fargo Fltg. Rate Sb. Nts. 1992 $44.44
Do. Fltg. Rate Sb. Nts. 2000 $46.57
Westland 7¾% Db. 1987/92 3⅞pc.
Do. 12⅛% Db. 2008 6 1/16pc.
Whitbread Inv. 7-12% Stppd. Int. 2nd Db. 2010 6pc.
Whitbread 4½% Rd. Db. 1999/2004 2¼pc.
Wigfalls 6¾% Un. Ln. 1994/99 3⅜pc.
Wilkinson & Riddell 5% Cm. Pf. 2.5p
Williams Hldgs. 10¾% Cm. Pf. 4.375p
Do. Cm. Cv. Rd. Pf. 4p
Wilshaw 0.1p
Wilson (Connolly) 8¼% 1st Mtg. Db. 1990/95 4⅛pc.
Wintrust 3p
Do. 10½% Cm. Pf. 5.25p
Do. 5.75% Cv. Cm. Pf. 2.875p
Yorkshire Int. Fin. Gtd. Fltg. Rate Nts. 1994 [illegible]

■ WEDNESDAY APRIL 1

AAH 4.2% Cm. Pf. 2.1p
Aitken Hume 7% Cv. Cm. Rd. Pf. 3.5p
Allied Textile 7.9p
Allied-Lyons 9¾% Db. 2019 4⅞pc.
Do. 7¾% Un. Ln. 1993/98 3⅞pc.
Do. 7½% Un. Ln. 3¾pc.
Do. 6¼% Un. Ln. 3⅛pc.
Do. 5¾% Un. Ln. 2⅞pc.
Do. 5¼% Un. Ln. 2⅝pc.
Do. 6¼% Rd. Db. 1987/92 3⅛pc.
Do. 7¼% Rd. Db. 1988/93 3⅝pc.
Do. 6¾% Rd. Db. 1988/93 3⅜pc.
Do. 3¼% Rd. Db. 1987/97 1⅝pc.
American Tst. 6¼% Db. 1987/92 3⅛pc.
Anglo Utd Cv. Rd. Pf. 3.625p
Asda Property 10 5/16% 1st Mtg. Db. 2011 5 5/32pc.
Assoc. Brit. Foods 6% Cm. Pf. 2.1p
Austin Reed 8% Cm. Pf. 2.8p
BET 5% Perp. Db. 2½pc.
Baldwin 1.4p
Do. 7% Cm. Pf. 2.45p
Bank of Wales 13½% Sb. Un. Ln. 1995/97 6¾pc.
[illegible]
Bournemouth & District Water 3.5% Cons. 1.75p
Bowater 30cts.
Bridon 7% Pf. 1.225p
Bristol Water 6.75% Cm. Cv. Rd. Pf. 1998 3.375p
Bristol Waterworks 11¾% Rd. Db. 2004 5⅞pc.
Do. 11.2% Rd. Db. 2005/08 5.6pc.
Do. 12½% Rd. Db. 2004 6¼pc.
British land Co. (Jersey) 8.625% Cv. Cab. Bd. 2011 4.3125pc.
Brixton Estate 10⅛% 1st Mtg. Db. 2012 5 1/16pc.
Do. New 3.9007*pc.*
Bullough 4.3p
Calfyns 10% Cm. Pf. 5p
Do. 6½% Cm. 1st Pf. 2.275p
Cape 8.4% Cm. Cv. Rd. Pf. 4.1p
Carclo Eng. 10½% Cm. Rd. Pf. 5.25p
Cheam Grp. 7% Pf. 3.5p
Do. 4.9% Pf. 2.45p
Do. 3.15% 1st Pf. 1.575p
Chesterfield Prop. 5.25% Cv. Cm. Pf. 2.625pc.
Coastal Corp. 10cts.
Conversion 3½% Ln. 1¾pc.
Corp. of London 3% 2007 1½pc.
Courtaulds Clothing 7½% Cm. Pf. 2.625p
Craig & Rose 5% Cm. Pf. 1.75p
Crest Nicholson 5½% Cv. Cm. Rd. Pf. 2.75p
Dewhurst 1.2p
Do. A N/Vtg. 1.2p
Dial Corp. 35cts.
Dowty 3.8p
E-Systems 25cts.
East Surrey 9.5% Cm. Rd. Pf. 3.5040983p
East Worcs. Water 3.85% Pf. 1.925pc.
Do. 2.8% Pf. 1.4pc.
Do. 3.5% Max 1.75pc.
Do. 7% Max 3.5pc.
Essex Water 9⅞% Rd. Db. 1997/99 4 15/16pc.
Do. 11.2% Rd. Db. 2005/09 5.6pc.
Do. 11.5% Rd. Db. 1995/97 5.75pc.
Do. 11¾% Rd. Db. 2002/04 5⅞pc.
Evode 1.8p
Excalibur 0.4p
Extel 10½% Cm. Pf. 5.25p
First Chicago 30cts.
Fleming Far Eastern Inv. Tst. 5% Cm. Pf. 1.75p
Do. 4½% Cm. Pf. 1.575p
Fleming High Income Inv. Tst.1.45p
Fleming Universal Inv. Tst. 5% Cm. Pf. 1.75p
GTE Corp. 42.5cts.
Glaxo 6¾% Un. Ln. 1985/95 1 11/16pc.
Granada 4.5p
Grand Met 4¾% *Cm. Pf. 1.6625pc.*
Green Prop. 2.6p
Greycoat 9½% Cm. Rd. Pf. 2014 4.75p
Hambros 7.5% Cm. Cv. Rd. Pf. 3.75p
Hampson Inds. Cm. Cv. Rd. Pf. 1991/2003 3.25p
Hardys & Hansons 6% 2nd Cm. Pf. 2.1p
Hollas 0.6p.
Hull 2½% Rd. 1936 1¼pc.
Do. 3½% 1¾pc.
ITT 46cts.
IWP Int. 12% Cm. Pf. 4.5p
Illingworth Morris 6½% Cm. Pf. 2.275p
Do. 6½% Cm 2nd Pf. 2.275p
Johnson *Matthey 3.5% Cm. Pf. 1.75p*
Do. 8% Cv. Cm. Pf. 4p
Keystone Inv. 11⅜% Db. 2010/15 5 11/16pc.
Kingsley & Forester 3.85% Cm. Pf. 1.925p
Kunick 7p Cv. Cm. Rd. Pf. 3.5p
Do. 8.25p Cv. Cm. Rd. Pf. 4.125p
Liverpool 3½% 1¾pc.
Do. 3% Rd. 1942 1½pc.
Low (Wm.) 6.75% Cm. Cv. Rd. Pf. 3.375p
Marshalls Cv. Cm. Rd. Pf. 3.25p
McCarthy & Stone 8.75% Cm. Rd. Pf. 2003 4.375p
Menvier-Swain 2.7p
Menzies (John) 9% Cm. Pf. 4.5p
Metropolitan Water Lambeth 3% Rd. *Db.* 1½pc.
Do. London Bridge Anns. £1.25
Do. 3% A 1963/2003 1½pc.
Mid Kent Hldgs. 10% Rd. Cm. Pf. 1997 5p
Mid-Sussex Water 12% Rd. Db. 2010 6pc.
Do. 10% Rd. Db. 2013/17 5pc.
Morgan Crucible 3.85% Cm. 1st *Pf.* 1.925p
Do. 3.5% Cm. 2nd Pf. 1.75p
Morton Sundour 5% Cm. 1st Pf. 1.75p
Owners Abroad Cv. Cm. Rd. Pf. 4.875p
P & O 5% Cm. Pf. 1.75p
Port of London Auth. 3½% 1949/99 1¾pc.
Porter Chadburn 0.85p
Prowting 8.8% Cm. Rd. Pf. 4.4p
Queens Moat Houses 7.5% Cv. Cm. Rd. Pf. 3.75p
Do. 10¼% 1st Mtg. Db. 2020 5⅛pc.
Do. New 2.99658pc.
Reading Corp. 3½% 1¾pc.
Repola Free FM0.65
Republic New York 25cts.
Rickmansworth Water 4% Cons. Db. 2pc.
Do. 7½% Rd. Db 1991/93 3¾pc.
REA Hldgs. Fltg. Rate Un. Ln. 1995/98 6¾pc.
SEP Indl. 0.2p
Sara Lee 25cts.
Sears Roebuck 50cts.
Severn Trent 6.4p
Shell Trans. 5½% 1st Pf. 1.925p
Siebe 6.05p
Smith (W.H.) A 4.3p
Do. B 0.86p
Southern Water 6.5p
Sphere Inv. Tst. 5% Cm. Pf. 1.75p
Suffolk Water 9% Rd. Db. 1992/94 4½pc.
Do. 5% Perp. Db. 2½pc.
Do. 11.5% Rd. Db. 1995/97 5.75pc.
Do. 3½% Perp. Db. 1¾pc.
Do. 4% Perp. Db. 2pc.
Do. 7¾% Rd. Db. 1992/92 3⅞pc.
Symonds Eng. 7½% Cm. Pf. 2.625p
TR Far East Inc. Tst. 1.1p
TR Smaller Co's Inv. Tst. 6½% Db. 1987/92 3¼pc.
Taylor Woodrow 9½% 1st Mtg. Db. 2014 4¾pc
Thwaites (Daniel) 5% 1st Cm. Pf. 17.5p
Town Centre Sec. 10½% 1st Mtg. Db. 2021 5¼pc.
Treasury 2½% (1975 or after) 1¼pc.
Unitech 2.1p
Wade Potteries 4.2% Cm. Pf. 1.05p
Wessex Water 6.6p
Wheway 1p
Whitbread 5½% 3rd Cm. Pf. 1.925p
Do. 7% Rd. Db. 1988/93 3½pc.
Do. 5¾% Irrd. Un. Ln. 2⅞pc.
Wigan Corp 3% Rd. 1½pc.
Willis Corroon 3.3p
Witan Inv. 8½% Db. 2016 4¼pc.
Woolcombers 7½% Cm. Pf. 2.625p
Do. 6% Cm. 2nd Pf. 2.1p
Xerox 75cts.

■ THURSDAY APRIL 2

BOC 12¼% Un. Ln. 2012/17 6⅛pc.
Central Motor Auctions 3p
Copymore 1.7p
Davenport Vernon 2.5p
Electron House 7.5% Cv. Cm. Rd. Pf. 3.75p
Gartmore American Sec. 1p
Gen: Cons. Inv. Tst. Inc. 2.745p
Heywood Williams Cm. Cv. Rd. Pf. 3.375p
Manakin Hldgs. 35p
Markheath 0.5p
Marubeni 6.45% Bd. 1998 3.225pc.
Do. 6.45% Bd. 1997 3.225pc.
Menzies (John) 3.6p
Moran Hldgs. 1p
New Zealand Inv. Tst. 0.5p
Property Sec. Inv. Tst. 1.6p
Ransom (Wm.) 0.525p
Stewart & Wight 6% Cm. Pf. 0.75p
TSB 3.25p
Utd. Scientific 5.5% Cv. Cm. N/Vtg. Rd. Pf. 2.75p
Waste Mngmt. 11cts.

■ FRIDAY APRIL 3

Aerospace Eng. 0.5p
Asda Property 1.35p
Banks (Sidney C.) 2.75p
Birse 1.65p
Dudley Jenkins 1.35p
Dyson (J.& J.) 2p
Do. N/Vtg. A 2p
El Oro Mining & Explo. 24p
Elect. Data Processing 2.5p
Eng. & Scottish Investors 1.25p
Do. B 0.010935p
Do. 3.75% Cm. Pf. 1.875p
Eurotherm Int. 4.7p
Exploration Co. 12p
Fired Earth Tiles 2.4p
Fleming Enterprise Inv. Tst. 1.3p
Foreign & Colonial Enterprise Tst. 0.8p
Foreign & Colonial Inv. Tst. 2.12p
Galliford 0.95p
Holders Tech. 4p
Kleinwort High Inc. Tst. 1.875p
London Forfaiting 5p
Microfilm Reprographics 1.44p
Misys 2.27p
Premark Int. 21cts.
River & Mercantile Smaller Co's Tst. 1.25p
Schlumberger 30cts.
Scottish American Inv. 1.05p
Seacon 2.7p
Second Alliance Tst. 12p
Do. 4½% Cm. Pf. 1.575p
Securicor 1.72p
Do. A (N/Vtg.) 1.72p
Do. 4.55% Cm. Ptg. Pf. 34.168p
Security Services 3.197p
Sinclair (Wm.) 1.7p
Taveners 8p
Thorpe (F.W.) 0.8p
Throgmorton Tst. 1.4p
Utd. Scientific 1.7p
Usher (Frank) 2p
Yeoman Inv. Tst. Inc. 1.5p

■ SATURDAY APRIL 4

Burtonwood Brewery 7% Cm. Pf. 2.45p
Edinburgh Inv. Tst. 5¾% Db. 1998 2⅞pc.
Eurocopy 2.9p
Haynes Publishing 2.5p
Tarmac Fin. (Jersey) 9½% Cv. Cap. Bd. 2008 *(Br)* 4¾pc.
Do. (Reg) 4¾pc.

■ SUNDAY APRIL 5

Annuities 2¾% 1⅜pc.
Annuities 2½% 1¼pc.
Bradford Property Tst. 10½% Cm. Pf. 5.25p
CRH 7% A Cm. Pf. 2.625p
Cleveland Place 4¼% Irrd. Db. 2⅛pc.
Do. 3¾% Irrd. Db. 1⅞pc.
Consolidated 2½% 1¼pc.
Metropolitan Water West Middx. 3% Db. 1½pc.
Do. Grand Junction 3% Db. 1½pc.
Treasury 3% 1½pc.
Treasury 8% Ln. 2002/06 4pc.

CONSTRUCTION CONTRACTS

Oberhausen development project

The P&O company **BOVIS INTERNATIONAL** has been appointed construction consultant for a proposed city centre redevelopment scheme at Oberhausen, on the outskirts of Dusseldorf.

The city has long been a centre for the manufacture of steel products and recent refinements in one of its fabrication yards has provided a 200 acre site.

Now the City of Oberhausen has brought in Stadium Developments, developer of Sheffield's Meadowhall shopping centre, to create a local centre connecting the city districts of Alt-Oberhausen and Osterfeld.

Planning consent is currently being sought to build a complete city district, incorporating shops, offices, sports and recreation facilities, parks, restaurants, hotels and media centres.

Bridge study

SIR OWEN WILLIAMS AND PARTNERS INTERNATIONAL has been awarded a £230,000 contract for a bridge maintenance inspection project in Istanbul, Turkey.

The contract covers the preparation of a maintenance programme covering more than 50 bridges and five viaducts in the 17th division directorate of the Ministry of Housing and Public Works (KGM).

SOWP International is collaborating with the Turkish consulting engineers, Tek Yen, on the contract.

Sewerage scheme in Cornwall

Companies within the **TRAFALGAR HOUSE** group have won the design and construct Penzance and St Ives sewerage and sewage treatment works scheme. Valued in the region of £60m the contract has been placed by South West Water Services as part of its "Clean Sweep" programme and involves the installation of a treatment process which is believed to be the first of its kind in the UK.

The work will be handled by a consortium of Trafalgar House Construction (Major Projects) and John Brown Engineering. Acer Consultants are the consulting engineers responsible for the civil, structural, hydraulic and marine design work.

The contract is for the design, supply, construction and commissioning of the scheme which involves diverting outfalls in the Penzance area and redirecting the sewage to improved facilities at Hayle sewage treatment works, prior to discharge through a new outfall as treated effluent.

This calls for the installation of 25km of pipelines ranging in diameter from 150mm to 2,100mm; together with up to seven pumping stations of varying capacity depending on the catchment area.

Proposals include a long sea outfall of 2.7km and a storm outflow outflow of 1.6km.

The existing sewers in the Penzance area will be intercepted and the resulting flows will be pumped via pumping stations at Penlee Beach, Wherrytown, Battery Rocks, Chyandour, Marazion Bridge, Sailing Club, and Crowlas to the Hayle sewage treatment works. After treatment the effluent will be discharged through the 2.7km long outfall near Gwithian.

Work will start shortly on the 154-week project.

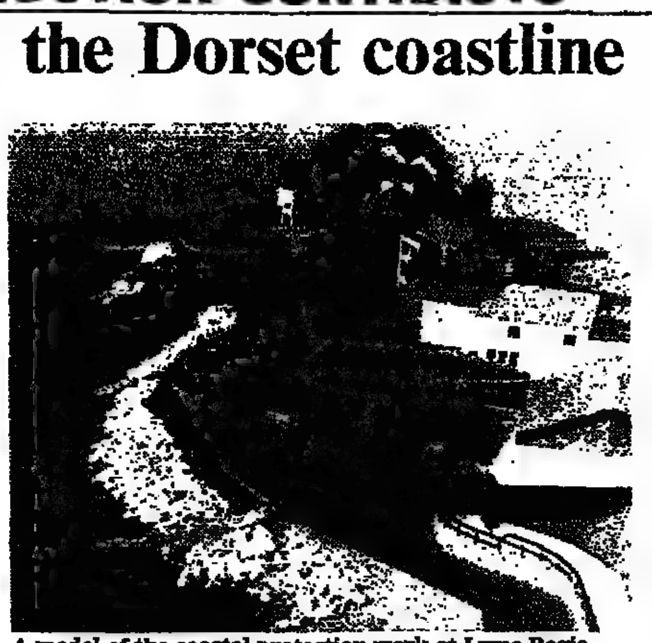
Protecting the Dorset coastline

RENDEL GEOTECHNICS, part of the High-Point Group, is preparing a detailed design for a scheme to protect part of the town of Lyme Regis in Dorset from coastal erosion and wave attack and improve the town's antiquated sewerage and sewage treatment system.

The scheme will incorporate 1,500 cu metres of storm water sewage storage tanks, a tunnel beneath part of the town, a pumping station within the new sea wall and inland pipelines as part of a major restructuring of the town's sewerage system.

Work on the new sea wall, stretching from Cobb Gate along Gun Cliff, where the existing 18th century walls are listed structures, to Church Cliff, is expected to start in September.

The scheme is being prepared for West Dorset District Council and South West Water and a prequalification exercise, which is currently underway, will produce a shortlist of six contractors.



A model of the coastal protection work at Lyme Regis

A grant for the coastal protection part of the scheme is being sought from the Ministry of Agriculture, Fisheries and Food.

The new sea wall will be reinforced concrete with natural rock facing to conform with the designation of the town as a part of an area of outstanding natural beauty. It will be protected by 15,000 tonnes of rock armour.

Upgrading trunk road in Scotland

The north east of Scotland civil engineering company of **MORRISON CONSTRUCTION** has won a contract to improve 6.4km of the A929 Dundee to Forfar trunk road, north of Tarbrax.

The £7.85m contract, from the Scottish Office, includes the construction of 4km of carriageway along the east side of the existing road, and 2.4km of dual carriageway in diversion to the west.

The 78-week contract includes transporting 400,000 cu metres of fill material for embankment construction and the disposal of 150,000 cu metres of unsuitable soil is planned to be carried out nearby, eliminating excessive additional haulage traffic on the main road.

Three reinforced single-span underbridges are required. One, at Gateside, will be built in stages around the existing bridge which will be demolished in the process. Another bridge will create a minor grade separated junction with the B9127 road at Spittalburn.

£9.8m orders awarded to Eve Group

New contracts valued at £9.8m have recently been won by the construction division of **EVE GROUP**.

Heading the list of orders is restoration works at the Round Tower at Windsor Castle, which dates from the 12th century, for the Royal Household, and at the Royal Mews, Buckingham Palace, for PSA Building Management London in projects together valued at just under £3m.

Over £5m of residential homes projects for two London Housing Associations have also been won by the division. For the Community Housing Association, Eve is to build 34 flats and eight houses at Parkway, London NW1, in a £2.83m project.

For the Sanctuary Housing Association Eve is to construct a £2.17m residential home for the elderly at Houndsfield Road, London N9.

Other projects include work for the City of Westminster at Little Venice; the London Boroughs of Greenwich, Southwark and Wandsworth; Thames Water and Sutton District Water; Brixton Prison; Thames Valley Police Authority; the National Grid Company; Allied Dunbar and Standard Life Assurance.

£22m work for Hall & Tawse

Contracts totalling over £22m have been awarded to the **HALL & TAWSE GROUP**, the construction division of Raine Industries.

Hall & Tawse Southern in Southampton has won a contract to design and build a Sainsbury's Homebase store at Hove. The contract, worth £2.2m, also includes the construction of an ambulance station on the same site.

Hall & Tawse Scotland's latest orders total £10m, including a housing development contract for over £3m with Kincardine & District Council. Other work includes a £1.7m refurbishment at the premises of the Porthlethen meat factory and a £1m refurbishment contract for Levi Strauss in Dundee.

Hall & Tawse Partnership has been awarded a £3.5m project by West Dorset District Council to provide more than 100 dwellings at Bridport.

Mixed batch

TRY GROUP has won contracts worth in excess of £11m.

Try Construction accounts for over £4m worth with alterations and refurbishment at the Haberdashers' Aske's Hatcham College in London and an extension to the Jodrell Laboratory at Kew Gardens for the PSA.

Try Build has received orders worth £6.45m, including a £2m freight and customs inspection facility in Folkestone awarded by Mowlem Management for the British Railways Board and a £1.8m management contract for the development of a car rental site for Heathrow Airport Ltd and Budget Rent-a-Car.

Arnold & Nathan has gained a £1.3m contract from Sutton and District Water for the construction of a 20,000 cu metre reservoir at Langley Park.

LEGAL NOTICES

P M LAURENCE (INSURANCE SERVICES) LIMITED

NOTICE IS HEREBY GIVEN, pursuant to Section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named company will be held at Forte Post House Hotel, Cartwright Drive, Titchfield, Fareham on 2 April 1992 at 10 am for the purposes mentioned in Sections 99 to 101 of the said Act.

A list of the names and addresses of the company's creditors may be inspected free of charge at: Cork Gully, 5 Town Quay, Southampton, SO9 1ZG between 10 am and 5 pm on 31 March 1992 and 1 April 1992.

Creditors wishing to vote at the meeting must (unless they are individual creditors attending in person) lodge their proxies at Cork Gully, 5 Town Quay, Southampton, SO9 1ZG no later than 12 noon on 1 April 1992.

Dated the 24 day of March 1992.

BY ORDER OF THE BOARD

REPAB LIMITED (FORMERLY MEDIA EXPENDITURE ANALYSIS LIMITED)

Notice is hereby given that a Meeting of Creditors is to be held at the Grenville Suite, Strand Palace Hotel, Strand, London WC2, at 10.00 a.m. on 10 April 1992, to consider our proposals under Section 23 (1) of the Insolvency Act 1986 and to consider establishing a Committee of Creditors. A copy of our proposals may be obtained from PO Box 55, 1 Surrey Street, London WC2R 2NT.

J.A. Talbot A.W. Brierley M.L. McGillop Joint Administrators

LRM LIMITED (FORMERLY THE MEDIA REGISTER LIMITED)

Notice is hereby given that a Meeting of Creditors is to be held at the Grenville Suite, Strand Palace Hotel, Strand, London WC2, at 11.00 a.m. on 10 April 1992, to consider our proposals under Section 23 (1) of the Insolvency Act 1986 and to consider establishing a Committee of Creditors. A copy of our proposals may be obtained from PO Box 55, 1 Surrey Street, London WC2R 2NT.

J.A. Talbot A.W. Brierley M.L. McGillop Joint Administrators

ART GALLERIES

E. BAWDEN, D. JONES, J. NASH, S. PALMER, G. SUTHERLAND "Dreamers of Landscape" until 7th April at BOHUN Gallery, 15 Reading Rd, Henley, Oxon Tel 0491 576228

CLASSIFIED BUSINESS TRAVEL

FLIGHTS

HOTELS

CONFERENCES & EXHIBITIONS

APRIL 6
I.T. AND BUSINESS RE-ENGINEERING
This conference finds out how the marriage of business process redesign and the creative use of IT is enabling companies to compete more effectively in today's testing markets. Contact Business Intelligence. Tel No. 081-544 1830 Fax: 081 544 9020. LONDON

APRIL 7-8
7th Annual Energy and Business Prospects: Post-Soviet Republics and Eastern Europe
PlanEcon, Inc., DRI/McGraw-Hill conference on regional energy industry and business/investment climate with economic analysis, panel discussions. Contact Corinne Redonnet on 081-545-6212. LONDON

APRIL 9
Creating Better Business Plans
Some 70% of small/medium sized businesses have no business plan. This conference will provide directors with a set of proven techniques to help formulate successful strategic plans, making them better equipped for today's highly competitive environment. Enquiries: Director Conferences Tel: 071 730 0022 LONDON

APRIL 10
Researching Iberian Markets
Time: 9.00-1.00pm. Cost: £95 - £85 without lunch. Content: Seminar will cover market characteristics and potential; company financial information; market research strategies. Contact name: Yasmin Green 071-262 5050 ext 229. Location: London Business School Regent's Park LONDON

APRIL 10
HEALTH AND SAFETY AT WORK
UK Regime and European Directives. By 1993, EC Directives on H&S will be incorporated into UK law. Is your company ready? Seminar examines issues of vital importance to H&S and PERSONNEL EXECUTIVES and legal advisers - CONTACT: Charlotte Thornton IBC. Tel: 071 637 4383 Fax 071 631 3214 LONDON

APRIL 13-14
International Direct Banking & Insurance
"The Ultimate in Customer Convenience" Learn from leading financial institutions providing DIRECT services to customers. Conference addresses...set-up...technology...marketing. Speakers include FIRSTDIRECT, NATWEST, BANCO DIRECTO, OKOBANK and more. Contact: Yvonne French, Lafferty Conferences. Tel: +353 1 718022. Fax: +353 1 713594 LONDON

APRIL 14
DOING BUSINESS IN POLAND
An indepth view of one of the major opportunity areas in Eastern Europe. Sponsored by Coopers & Lybrand Europe. The conference addresses: investment opportunities, legal and taxation issues, labour, acquisitions, accounting issues and case study. Contact: FIBEX Tel: 071 489 9944, Fax: 071 236 6140 LONDON

APRIL 14
Profiting From Artificial Neural Networks
Decision-making in DIRECT MARKETING and FINANCIAL ANALYSIS can be improved using new data analysis techniques. This is a practical non-technical seminar designed for Directors and Managers. Contact: Malcolm Carter Tel: 081-848-6436 Fax: 081-848 6565 NEAR HEATHROW

APRIL 14
Battle Tactics For Success
Selling to large organisations can be an uphill struggle. This Institute of Directors workshop style conference shows how smaller/medium size companies can effectively penetrate, develop and then defend major accounts. Enquiries: Director Conferences Tel: 071 730 0022 LONDON

APRIL 14 & 15
Opening up the Post-Soviet Gas Industry
Meet Key Decision Makers from Russia, Kazakhstan and other Republics convened by the newly established Centre for Foreign Investment and Privatisation, Moscow and The Royal Institute of International Affairs. To be held at The Queen Elizabeth Conference Centre, London. Enquiries RIIA Conferences. Tel: 071 957 5700 Fax: 071 957 5710 LONDON

APRIL 15
Buying, Selling and Making Profits from Contaminated Land
An essential one-day briefing for property professionals on how to clean up, value, sell and recycle contaminated land. Enquiries: Helen Jackson, Henry Stewart Conference Studies. Tel: 071 935 2382 Fax: 071 486 7083 LONDON

APRIL 23 & 24
Competitive Intelligence
Objectives. Organisation. Sources. Techniques. Tools. Analysis. Seminar presented by Kirk Tyson, author of "Competitive Intelligence Manual & Guide". For executives and analysts with strategic planning, business development, and research responsibilities. Also in PARIS 20 & 21 April. Contact IIR SA Geneva, Switzerland. Tel: (41) 22 788 2751. Fax: (41) 22 788 2726 LONDON

APRIL 28-29
The 3rd Multimedia Conference & Exhibition on CD-I
The international CD-I event of the year. Compact Disc-Interactive has come to market. Leading professionals in the industry cover latest developments in hardware, software, market trends and launch plans. Contact: Elske Helbing. The Event Organisation Company Tel: 071-228 8034 Fax: 071-924 1790 LONDON

APRIL 29
Practical Implications of the Single Currency
Cityforum, Wall Street Journal Europe EMU Round Table at Insurance Hall in the City. Speakers include Iain Saville, Thierry Vissol, Robert Tyley and Christopher Johnson. Co-sponsored by AMUE, Eurocard/Eurocheque, Paribas and Clifford Chance. Enquiries to: Lindsey Neil Tel: 0225-466744. Fax: 0225-442903 LONDON

APRIL 29-30
SOCIETY OF TECHNICAL ANALYSTS
Day 1 offers two streams - a basic introduction to technical analysis whilst second stream will focus on more advanced aspects. Day 2. Distinguished technical analysts from the UK and abroad will give their views on the markets. Contact: The Membership Secretary on 0223 356251 (Fax 0223 329806) LONDON

APRIL 30
Business Opportunities in the Greater China Market
How to secure business in the rapidly integrating markets of China, Hong Kong and Taiwan. Distinguished panel of 12 Greater China market specialists. Jointly organised by CBI and China-Britain Trade Group with British Airways sponsorship. Call Andrea Heffernan 071-828 5176 LONDON

APRIL 30
Occupational Visual Welfare of VDU Users
A one-day seminar on the legislation proposed to implement the European VDU Directive. VDU users will be entitled to free "eye and eyesight tests" and "special corrective appliances" Bell Howe Conferences Tel: 0602 436323 Fax: 0602 436440 EDINBURGH

MAY 6-8
Business Forecasting Using the PC
In this intensive "HANDS ON" seminar professionals familiar with the PC will learn how to apply its speed, accuracy and flexibility to business planning. Speaker: Dr D Moscato. Contact: Louise Knight, Frost & Sullivan Ltd. Tel: 071 730 3438. Fax: 071 730 3343 LONDON

MAY 7-8
What It Takes to Win
Transforming leadership can revitalise a company by creating commitment and releasing the talents of all its people - workers and managers alike. Speaker: D J Nicholls. Contact: Louise Knight, Frost & Sullivan Ltd. Tel: 071-730 3438. Fax: 071-730 3343 LONDON

MAY 11
Payments Systems For Europe
Cityforum, Wall Street Journal Europe, EMU Round Table at Skinners' Hall in the City. Including Sir John Quinton, Geoffrey Fitchew, Richard Allen, N Lyle and Dr Ben van Eldik. Co-sponsored by AMUE, Eurocard/Eurocheque. Enquiries to: Lindsey Neil Tel: 0225-466744 Fax: 0225-442903 LONDON

MAY 11
The Politics And Economics Of Monetary Union
Cityforum, Wall Street Journal Europe. EMU Round Table. Including Stanislas Yassukovich, Tim Congdon, George Hatjoullis, Charles Goodhart, Ian Plenderleith, Gerd Hansler and Philippe Moneton. Co-sponsored by Eurocard/Eurocheque and Morgan Stanley. Enquiries to: Lindsey Neil Tel: 0225 466744 Fax: 0225 442903 LONDON

MAY 11-12
How to Build a Superior Customer Service Department
This seminar offers a comprehensive background in all activities, including positioning, standards and procedures. Speaker: Jack Welsman. Contact: Louise Knight, Frost & Sullivan Ltd. Tel: 071 730 3438. Fax: 071 730 3343 LONDON

MAY 11-12
Company Sales, Divestitures and Auctions
Increasing pressures for improved performance, means the sale of businesses, divisions or assets has become a regular feature of corporate life. This course covers the strategic, preparatory, regulatory, and negotiating aspects essential for successfully completing the deal. Contact: ACQUISITIONS MONTHLY Tel: 071 823 8740 LONDON

MAY 13
Work at VDUs
A vital, one-day seminar for senior management on the implications of recent litigation (RSI) and forthcoming legislation (VDU Directive). Presented by Colin Mackay - HSE, Brian Pearce - Consultant Ergonomist, Tom Stewart - Chairman ISO TC159 SC4 Bell Howe Conferences Tel: 0602 436 323 Fax: 0602 436 440 BIRMINGHAM

MAY 14-15
1st International Branch Banking Conference
"Merchandising the Branch" The enormous cost of maintaining branch networks is under the microscope: Branch Profitability; Branch Merchandising; Branch Marketing; Long-term future of Branch Networks. Contact: Yvonne French, Lafferty Conferences Tel: +353 1 718022 Fax: +353 1 713594 LONDON

MAY 18 & 19
Financial Reform and Global Market Integration
Convened by The Royal Institute of International Affairs, The Institute of Global Financial Studies, FAIR, Japan and The Institute of Fiscal and Monetary Policy, Ministry of Finance, Japan. To be held at Chatham House, London. Enquiries RIIA Conferences. Tel: 071 957 5700 Fax: 071 957 5710 LONDON

MAY 20-21
LOGISTICS & THE ENVIRONMENT
Speakers from major companies throughout the supply chain. Key issues in warehousing and distribution with examples of best practice; packaging legislation + implications for retailers/distributors; green partnership sourcing; environmental management systems; IT systems; civil liability insurance. Programmes - contact: Hilary Keeble, NMHC Ltd. Tel: 0234-750323 Fax: 0234-750875 CRANFIELD

MAY 21-22
Strategic Alliances
An in-depth look at how strategic alliances can provide an alternative organisational form to benefit all parties concerned. Contact: Louise Knight, Frost & Sullivan Ltd. Tel: 071 730 3438 Fax: 071 730 3343 LONDON

MAY 26
Development - What Works in These Difficult Times
Hear and discuss recent case histories: the Coca-Cola Schweppes venture, Red Rock Cider, Miller dairy products, Courage developments, Nutrasweet, Disney and Food, Abbey National, Filofax revival, Seagram Europe. Contact Catherine Berger, KAE Development. Tel: 071 823 6023 Fax: 071 259 9906. LONDON

MAY 27-28
Time Series Analysis and Forecasting
A course to be held at the London School of Economics, introducing the basic ideas of time series model building using a personal computer. Contact: Short Courses Office Tel: 071-955 7227 Fax: 071-955 7676 LONDON

MAY 27-29
OFFSET, COUNTERTRADE and INTERNATIONAL JOINT VENTURES
Key considerations for strategic business alliances. Speakers include: Clifford Chance, Coopers & Lybrand, Colin Overbury (Merger Task Force), Freshfields, Grant Thornton, ICI and Simmons & Simmons. Contact: A.T.I. Ltd. tel. 071-430 2661. fax. no. 071-831 4298. (Similar event being held in PARIS, 18-20 May, 1992) LONDON

MAY 28-29
Maximising Government Contracts
Highly practical conference covering key regulations and practices governing Government contracts. Expert panel with some 100 years combined experience of contracting in this area, including M.O.D. speaker. Contact: A.T.I. Ltd Tel: 071-430 2661 Fax: 071-831 4298 LONDON

MAY 29
Improving IT Effectiveness
This one day conference examines the key issues in raising the performance of the IT function, exploring the strengths and weaknesses of conventional productivity and efficiency approaches, and presenting alternatives. Contact: Business Intelligence Tel: 081-544 1830 Fax: 081-544 9020 LONDON

MAY 31 - JUNE 11
Imperial/Darden Management Programme
A course in international general management. A joint venture between The Darden Business School, University of Virginia and The Management School, Imperial College. Includes marketing, corporate & business strategy, financial control, operations & systems management, organisational & interpersonal behaviour. Contact: Pamela Manser, Imperial College Tel: 071 225 8667 Fax: 071 225 8668 LONDON

JUNE 1-2
DEFENCE OPPORTUNITIES FORECAST 92
Major conference highlighting new developments and operational requirements. Speakers include: UK MOD: Col. Mike Dewar (IISS); NATO HQ; Swedish M.O.D.; Turkish Embassy; Eric Vardac (USA/TAC). Contact: A.T.I. Ltd, tel. no. 071-430 2661, fax no. 071-831 4298. LONDON

JUNE 4
REPETITIVE STRAIN SYNDROME
Examing legal and practical implications for OFFICE and FACTORY employers/employees. VDU/Keyboard use. EC Directive on H&S. Views from legal specialists, Health & Safety Executive, ergonomist. Provides employers with solutions - alleviate causes and minimise risk of claims. SUSAN COULSTON: IBC 071 637 4383 LONDON

JUNE 4 & 5
BUYING AND SELLING UNQUOTED COMPANIES
Are you tired of employing others to help you buy and sell? This unique "DIY" course addresses the practical realities of buying and selling a company and how to minimise the risks involved. Contact: Acquisitions Monthly Tel: 071 823 8740 Fax: 071 581 4331 LONDON

JUNE 4-5
DOING BUSINESS in the MIDDLE EAST
Major conference on business opportunities in this highly lucrative area. Speakers include: ECGD, Ferranti, DTI, Coopers & Lybrand, Nabarro Nathanson, British Israel Chamber of Commerce, Fulbright & Jaworski, Taylor Woodrow International, Arab British Chamber of Commerce and COMET. Contact: A.T.I. Ltd, tel. no. 071-430 2661, fax. no. 071-831 4298. LONDON

JUNE 8
Lloyds Losses - Understanding the Legal Position
What is the legal position of Names at Lloyd's? Practical guidance for Name's advisers from recognised insurance experts. Chaired by Valentine Powell, Chief Executive, Association of Lloyd's Members. Contact: Susan Coulston IBC Tel: 071 637 4383 Fax: 071 631 3214 LONDON

JUNE 15
STRATEGIES FOR SUSTAINING BUSINESS RECOVERY
Strategies for bucking the trend to speed your recovery. Speakers incl: Professor J. Stopford LBS; C. Wilks, CFO, Lloyds Bank; Aiden O'Kelly, Hertz; J. Barie, BBH; R. Yates, Morgan Grenfell; Saxton Bampfylde. At the IOD. CENTURY COMMUNICATIONS 071-244 8884 LONDON

JUNE 16
Major Seminar on new VDU Legislation.
Health & Safety of Computer Users: "Practical Steps Towards Compliance". How will it affect your organisation? What are the penalties for non-compliance? What are the benefits? Contact CEL. Tel: 071-634 4697 LONDON

JUNE 17
Insider Dealing - Law and Practice
Half-Day Briefing. In-depth analysis from expert panel chaired by Michael Chance, Fraud and Regulatory Investigations Group, Cameron Markby Hewitt. Practical case study will demonstrate application of the law. Contact: Susan Coulston IBC Tel: 071-637 4383 Fax: 071-631 3214 LONDON

JUNE 17 & 18
Upper Limb Disorder among Keyboard Users
What is "RSI"? Why are we apparently experiencing an epidemic among keyboard users? Invited contributions from some of the UK's foremost authorities on the ergonomic, medical and legal aspects. Bell Howe Conferences Tel: 0602 436323 Fax: 0602 436440 LONDON

JUNE 22 - 24
Financial Markets Analysis & Investment Strategy
A course for investment, fund and portfolio managers, and market analysts. A new approach for analysing and formulating strategies based on an 'integrated' system. Combines expertise from the UK, US, Bank of England and The Fed. Contact: Pamela Manser, Imperial College Tel: 071 225 8667 Fax: 071 225 8668 LONDON

JUNE 24-25
Executive Information Systems '92 Annual Conference and Exhibition
Major independent event for EIS sponsors, developers and managers with 16 outstanding US and European speakers, many live system demonstrations and a comprehensive EIS supplier exhibition. For full colour brochure ring Business Intelligence: 081-544 1830 Fax: 081-544 9020 LONDON

JULY 2-3
Privatization
Worldwide ministers, officials, and experts will gather at Sixth London Privatization Conference. Speakers include Sir William Ryrie (IFC), Ibrahim Elwan (World Bank), John Mullen (USAID). Themes include regulation, management renewal, attracting foreign finance, developing a stockmarket. Enquiries. Adam Smith Institute Tel: 071 222 4995 Fax: 071 222 7544 LONDON

JULY 6 & 7
Managing Financial Risks
This workshop is an intensive, practical course aimed at those who wish to understand the principles and practices of financial risk management. Enquiries. Financial Times Tel: 071-925 2323 Fax: 071-925 2125 LONDON

JULY 7
International Joint Ventures - Legal Issues and Strategic Planning
Analysis of key issues involved in considering a joint venture. Speakers from UK, EC and USA. Practical case studies. Chaired by Julian Ellison of Ashurst Morris Crisp and Edward Kling of Dechert, Price & Rhoads. Contact: Vicki Goffin, IBC Tel: 071 637 4383 Fax: 071 631 3214 LONDON

INTERNATIONAL

APRIL 13-15
Energy and the Environment
Convened by the Organization of the Petroleum Exporting Countries (OPEC), this seminar will discuss environmental problems and world energy supplies. Speakers will hail from OPEC and non-OPEC countries, their oil industries and institutions. Registration Office. Registration Fee. US$ 250-. Tel: (43 1) 211 12 205 Telefax (43 1) 214 98 88 VIENNA

APRIL 23-24
1st Central European Financial Services Conference
"From Liberalisation to Privatisation - to Capital Markets". Focusing on the challenges and opportunities created by the "opening up" of Central Europe and the progress of the privatisation process in Czechoslovakia, Hungary and Poland. Contact Yvonne French, Lafferty Conferences, Tel: +353 1 718022, Fax: +353 1 713594 PRAGUE

APRIL 26-28
EUROPEAN FUTURES MONEY MANAGEMENT
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Changing corporate cultures

Power to the people

Christopher Lorenz explains the new fashion for shifting authority down the organisation

Gather together any group of managers, shop floor workers, or frontline service employees. Plant the concept of "empowerment" and stand well back. Wait for a burst of enthusiasm, followed by clouds of confusion.

The principle of empowerment underpins almost every one of the thousands of corporate "culture change" programmes now underway in Europe and America. In simple terms, its meaning seems obvious enough: freeing employees from instructions and controls, and allowing them to take decisions themselves. Hence the initial keenness which it engenders.

Such freeing of employees is, some consultants and academics argue, becoming not just advisable but mandatory in the face of at least three sets of pressures:

- to make organisations more responsive, more quickly, to the market place;
- to "delayer" organisations in order to make them much more cost-effective;
- and to get employees of various disciplines to collaborate together with minimal supervision, by communicating horizontally, rather than vertically up and down the hierarchy.

As a result, companies all over the western world are abandoning the old principle that a "span of control" of between five and 15 people is the most anyone can manage effectively; many managers used to argue that as few as eight was the maximum.

Instead, they are installing what Peter Drucker, the doyen of management pundits, calls "spans of empowerment" of well above 20, in which the manager's role shifts from controller to coach, or mentor.

But what does this do to the authority of the manager, whether at senior or (especially) middle levels? And does it necessarily create what Tom Peters, Drucker's fellow guru, has called "purposeful chaos" – a notion which some managers find downright threatening?

The ambiguity that managers feel about the concept is exemplified by research undertaken recently among the top managers of 10 large British companies by Laurie International, a management consultancy. These leaders all agreed that empowerment was vital to the improvement of business efficiency and quality, but they detected worry among their managers "that empowerment could open up a Pandora's Box".

Some of the leaders shared this concern quite openly. They were emphatic "that empowerment boundaries would have to be set".

For this group of worried managers, and the thousands of bemused others, help on some of these issues is at hand. It comes in the form of a plain person's guide to three issues:

- why to empower;
- how to empower (the guide suggests three basic options);
- and when to empower (depending on the situation).

The guide comes courtesy of two little-known business academics in America, David Bowen of Arizona State University and Edward Lawler III of the University of Southern California. It focuses on service organisations, but most of its advice is applicable to all kinds of enterprises.

Reporting their work in the spring issue of the Sloan Management Review*, which will be published in mid-April, they illustrate it with examples of companies which embraced empowerment in a big way, such as Federal Express and Club Mediterranée.

But they also cite competitors which prefer to stick to production line-like controls and rules, such as United Parcel Service (UPS) and Disney – as well as McDonald's, American Airlines and Delta.

Rather than adopting an either-or approach to empowerment versus control, the academics point to three optional courses of action, two of which combine both of them. The degree of empowerment increases as additional knowledge, information, power and rewards are pushed down the organisation.

SUGGESTION INVOLVEMENT

This is only a small step away from control – indeed, critics would argue that this option does not warrant the label "empowerment" at all. Employees are encouraged to contribute ideas, but their day-to-day work activities do not really change.

Also, they are not empowered to implement, only to recommend. McDonald's follows this approach: its Big Mac and Egg McMuffin dishes were both apparently invented by employees, as was a system of wrapping burgers that avoids leaving a thumbprint on the bun.

JOB INVOLVEMENT

A significant departure, this involves extensive job redesign so that employees use a variety of skills, often in teams. They have considerable freedom in deciding how to do the necessary work. Supervisors need to be reorientated towards supporting the front line or shop floor, rather than directing it.

Despite the heightened level of empowerment that it brings, the job involvement approach does not change higher-level strategic decisions about organisation structure, power and the allocation of rewards. These remain the responsibility of senior management.

HIGH INVOLVEMENT

Here, employees become involved not just in how to do their jobs, or how effectively their team performs, but also in the whole organisation's performance. Virtually every aspect of the organisation is different from that of a control-orientated one. Information on business performance is shared. Employees develop extensive skills in teamwork, problem solving, and business operations.

They participate in work-unit management decisions. There is profit-sharing and employee-ownership.

High involvement organisational designs may be expensive to implement, warn Bowen and Lawler. Perhaps most troublesome is that these management techniques are relatively undeveloped and untested.

People Express tried to operate as a high involvement airline, and the constant struggle to learn and develop this organisational design contributed to its severe operating problems.

Both empowerment and the production line approach have their advantages, and each fits certain situations, the academics emphasise. They suggest five "contingencies" that determine which approach to adopt.

The five are

- Type of business strategy (low cost, high volume versus differentiation through personal service and customisation).
- Type of relationship with customer (degree of one-off, short-term versus extended relationship).
- Type of technology (degree of simple and routine versus complex and non-routine).
- Business environment (degree of predictability versus surprise).
- Degree to which people in the organisation (managers and other employees) are control versus empowerment-minded.

Exemplifying these different situations, Bowen and Lawler say that customers in some situations prefer to be served by an employee who is not friendly and empowered, but just ultra-fast.

Not all employees want more autonomy, challenge and responsibility at work, Bowen and Lawler emphasise.

Nor are all employees (including managers) suited to the teamwork that empowerment generally involves.

Surprisingly, perhaps, research in the US suggests that service companies tend to use significantly fewer employee involvement practices than do manufacturing companies.

This may be partly because it can be easier in manufacturing than in service to see the pay-offs from different management practices, say Bowen and Lawler. But these differences are now blurring as service competition increases and service companies become more sophisticated in tracking the benefits of customer service quality.

Bowen and Lawler conclude with the common-sense adage that before any company rushes into empowerment programmes, it should determine whether and how empowerment actually fits its situation.

This may be pure common sense, but it is all too often forgotten in the rush to create a "new culture."

*Reprint 3333. Subscription information: fax (USA) 617-253-5584.

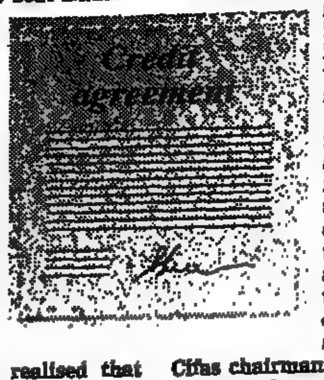
Giving credit where it is due

David Barchard looks at how a group of retailers are fighting fraud

How much use can a tiny organisation with no technology, a staff of two and a budget of only £85,000 a year, be to retailers and financial institutions in the fight against fraud?

Set against the efforts of Kenneth Baker, Britain's Home Secretary, to persuade the clearing banks and building societies to put up tens of millions of pounds to combat fraud, Cifas – the name stands for Credit Industry Fraud Avoidance System – looks puny.

The system is the brainchild of a group of retailers and others in the credit lending business who wanted cost-effective ways to beat fraud.



Most anti-fraud measures rely on expensive technology inside organisations. But as John McCullough, manager of Sears Card says: "We realised that companies in the credit business could fight fraud by copying retail traders and exchanging information directly between themselves."

The founders also realised that the most effective way for lenders to fight fraud was to nip it in the bud by spotting fraudsters when they make applications for credit.

That is easiest done by tapping information about past frauds.

If a credit organisation believes that an applicant has filed false information or impersonated someone, it sends the information to all UK four credit reference agencies – CCN, Equifax, Infolink, and CDMS.

Last year, 9,427 fraudulent applications were filed with the credit reference agencies. When the same address comes up in a subsequent application, Cifas members are alerted.

The Cifas members must then apply to the organisation which issued the warning and check the facts. There were checks on about 85 per cent of the fraudulent credit applications listed on Cifas last year. What sort of applications generate warnings?

Cifas records five categories of suspicious information.

- A false name at a true address.
- Impersonation.
- The successful use of false data to secure credit, like giving an inflated income.
- The attempted use of false data where credit was not given.
- The sale of goods like motor vehicles still covered by hire purchase agreements.

"Everyone at Cifas would like to see the police take fraudulent applications more seriously," says Peter Hurst, credit policy manager at Barclaycard, Cifas' largest member.

"Some police forces argue that because no money was lost, there is no reason why they should investigate it. Others take it very seriously indeed, but there is no national policy among the police."

About one third of frauds are impersonations and protecting the innocent is an important concern. "The worst that can happen to an innocent party is that their address is on the data base," says Ken Cherrett, Cifas chairman.

In practice, people who have been the victims of impersonation may find that they have to spend slightly longer proving their identity when applying for credit.

Some lenders, notably Barclaycard, write and tell customers when their names have been used for an impersonation.

Cherrett says that Cifas has demonstrated that a great deal can be achieved very easily by co-operation between retailers to fight fraud.

The scheme's original members were mostly retailers and smaller credit institutions, but its 72 members now include all but one of the big high street banks.

How effective is it? Barclaycard believes that Cifas membership saves it about £3m a year in losses from fraud – 1,000 times its annual subscription of £3,000 to the organisation, although members also have to include the day-to-day cost of participating in the scheme by filing information to the credit reference agencies.

LEGAL NOTICES

1467245 REGISTERED IN ENGLAND
SEVERN HUNTLANDS TRADING CO LIMITED
(JOINT ADMINISTRATIVE RECEIVERS APPOINTED)
NOTICE IS HEREBY GIVEN, pursuant to Section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at: 43 Temple Row, Birmingham on Monday 3 April 1992 at 10.30 am for the purpose of having laid before it a copy of the report prepared by the administrative receivers under Section 48 of the said Act. The meeting may, if it thinks fit, establish a committee to exercise the functions conferred on creditors' committee by or under the Act.
Creditors are only entitled to vote if:
(a) they have delivered to us at the address shown above, no later than noon on 8 April 1992, written details of the debts they claim to be due to them from the company and the claim has been duly admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and
(b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.
Please note that the original proxy signed by or on behalf of the creditors must be lodged at the address mentioned; photocopies (including the faxed copies) are not acceptable.
Signed: David R. Wilson and John F. Powell Joint Administrative Receivers
Dated: 25 March 1992

FINITE GROUP PLC
NOTICE IS HEREBY GIVEN, pursuant to Section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named company will be held at: Cork Gully, Central Business Exchange, Midsummer Boulevard, Central Milton Keynes, MK9 2DF on Monday 6 April 1992 at 11.00 am for the purposes mentioned in Sections 99 to 101 of the said Act.
A list of the names and addresses of the company's creditors may be inspected free of charge at: Cork Gully, Central Business Exchange, Midsummer Boulevard, Central Milton Keynes, MK9 2DF on Thursday 2 April 1992 and on Friday 3 April 1992.
Dated 20th March 1992.

MICRODRAW LIMITED
NOTICE IS HEREBY GIVEN, pursuant to Section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named company will be held at: Orchard House, 10 Albion Place, Maidstone, Kent, ME14 5DZ on 3 April 1992 at 10.30 am for the purposes mentioned in Sections 99 to 101 of the said Act.
A list of the names and addresses of the company's creditors may be inspected free of charge at: Orchard House, 10 Albion Place, Maidstone, Kent, ME14 5DZ between 10.00 am and 5.00 pm on 1 April 1992 and 2 April 1992
Dated 16th March 1992.
By order of the Board.
J GARROD Director

SIBEC (CHESTER) LIMITED
NOTICE IS HEREBY GIVEN, pursuant to Section 98 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above-named company will be held at: Shelley House, 3 Noble Street, London EC2V 7DQ, on 3 April 1992 at 10.30 am for the purposes mentioned in Sections 99 to 101 of the said Act.
A list of the names and addresses of the company's creditors may be inspected free of charge at: Shelley House, 3 Noble Street, London EC2V 7DQ, between 10.00 am and 5.00 pm on 1 and 2 April 1992.
Dated 24th March 1992.
By order of the Board.
A G MORRIS, Director

Notice of appointment of Joint Administrative Receivers
CARMICHAEL UTILITIES LIMITED
Registered number: 2208495. Nature of Business: Production of Engineering Drawings. Trade classification: 07. Date of appointment of joint administrative receivers: 18 March 1992. Name of person appointing the administrative receivers: Barclays Bank Plc.
JOHN FREDERICK POWELL & IAN NAPIER CARRUTHERS, Joint Administrative Receivers (Office holder nos. 249 & 814) Cork Gully, 43 Temple Row, Birmingham B2 5JT

Notice of appointment of Joint Administrative Receivers
CARMICHAEL AERIEL ACCESS LIMITED
Registered number: 236348. Former Company Name: Carmichael Industrial Products Ltd. Nature of Business: Manufacturers of Fire Engine Turntable, Ladders & Hydraulic Platforms. Trade classification: 07. Date of appointment of joint administrative receivers: 18 March 1992. Name of person appointing the administrative receivers: Barclays Bank Plc.
JOHN FREDERICK POWELL & IAN NAPIER CARRUTHERS, Joint Administrative Receivers (Office holder no(s) 249 & 814) Cork Gully, 43 Temple Row, Birmingham B2 5JT

Notice of appointment of Joint Administrative Receivers
CARMICHAEL FIRE LIMITED
Registered number: 2201717. Nature of Business: Fire Engine Manufacturer. Trade classification: 07. Date of appointment of joint administrative receivers: 18 March 1992. Name of person appointing the administrative receivers: Barclays Bank Plc.
JOHN FREDERICK POWELL & IAN NAPIER CARRUTHERS, Joint Administrative Receivers (Office holder no(s) 249 & 814) Cork Gully, 43 Temple Row, Birmingham B2 5JT

Notice of appointment of Joint Administrative Receivers
CARMICHAEL HOLDINGS LIMITED
Registered number: 1293885. Nature of Business: Holding Company. Trade classification: 07. Date of appointment of joint administrative receivers: 18 March 1992. Name of person appointing the administrative receivers: Barclays Bank Plc.
JOHN FREDERICK POWELL & IAN NAPIER CARRUTHERS, Joint Administrative Receivers (Office holder no(s) 249 & 814) Cork Gully, 43 Temple Row, Birmingham B2 5JT

COMPANY NOTICES

THE ROYAL BANK OF CANADA
U.S. $350,000,000 Floating Rate Debentures due 2005
In accordance with the Terms and Conditions of the Debentures, the interest rate for the period 31st March, 1992 to 30th April, 1992 has been fixed at 4⅜% per annum. On 30th April, 1992 interest of U.S. $3.645833 per U.S. $1,000 nominal amount of the Debentures will be due for payment. The rate of interest for the period commencing 30th April, 1992 will be determined on 28th April, 1992.
Agent Bank and Principal Paying Agent
ROYAL BANK OF CANADA EUROPE LIMITED

CITY OF MONTREAL
3% PERMANENT DEBENTURE STOCK
NOTICE IS HERBY GIVEN that the Transfer register will be closed from 10 April 1992 to 30 April 1992 both dates inclusive.
THE ROYAL BANK OF SCOTLAND PLC
Registrar
Registrar's Department
67 Lombard Street
London

PEOPLE

API wraps up new team

API, the packaging group beset last year by management changes and a hostile bid, has found a new chief executive in Mike Smith who joins from Irish packaging multinational Jefferson Smurfit.

"This is a great recovery opportunity" says chairman Moger Woolley, who took up his assignment at the beginning of last month. Eric Holroyd, a former director of Bowater Packaging and a friend of Woolley's since the latter was chief executive of DRG, has been acting chief executive since last year.

Smith, 45, is chief executive of the print, packaging and converting division of Jefferson Smurfit. While that is a bigger business than API, Smith is English and may have felt the top job at API offers greater scope than staying with Smurfit.

"While the products are different, some of the end customers are the same. Smith knows his way around the marketplace" says Woolley.

API last year fought off a bid by NMC which surfaced when the previous senior management resigned last March.

KB's new trust man

KLEINWORT BENSON, which has been slower than some rivals to exploit its stable of investment trusts, has appointed Simon White, aged 29, as managing director of Kleinwort Benson Investment Trust Management.

White, who manages the Jos and Brunner investment trusts, will take over the day-to-day running of Kleinwort's investment trust operation which covers 8 trusts with £800m of assets. He will continue to manage the two trusts but in addition will be responsible for other areas such as new product development and market research. Joining Kleinwort as a management trainee after Oxford, White was closely involved with the launch of the merchant bank's first new investment trust in 30 years and establishing a number of savings and Pep facilities.

He replaces 46-year-old Ben Siddons, a KB veteran, who becomes the first full-time executive chairman of KBITM. Colin Black, the current non-executive chairman, steps down but remains on the board of KBITM and chairman of Kleinwort Benson Investment Management. Black, aged 62, is taking over as chairman of Kleinwort Benson (Channel Islands) following the retirement of David Benson.

Financial moves

■ UBS PHILLIPS & DREW is hiring 38-year-old American Bob Harding as managing director and head of sales for the debt and treasury division. He joins from BZW, where he was head of the international bond division, covering trading, sales and research in non-sterling Eurobonds and government bonds.

He reports to Richard Briance, vice chairman and head of debt and treasury, who joined last November.

"Not many people combine this experience in trading as well as sales - in addition to the American dimension" says Briance. Harding previously held a variety of trading and sales positions with Kidder Peabody and Bankers Trust.

■ SALOMON BROTHERS has promoted Gilles Albou to head of Continental fixed income sales based in London.

■ Gerald Kaye (below) is the new group development director of SPP●LET INTERNATIONAL in Brussels.

■ Steven Phillipson has been promoted to sales director of HILL SAMUEL FINANCIAL SERVICES.

■ Julian Foster is appointed finance director of the HEART OF ENGLAND BUILDING SOCIETY; he moves from Bankers Trust.

■ Stuart Anderson becomes a director of INDEPENDENT INVESTMENT MANAGEMENT.

■ New directors at KLEINWORT BENSON are Simon Ball, David Berish, Nigel Binks, Audrey Coates, John Duffy, Hiroshi Ichihashi, Desmond Joyner, Iain Leigh, Erik Linnes, George McMahon, William Pedder, Dennis Preston, Henry Somerset, Jonathan Squires, Leon Van Lancker, Konstantin von Schweinitz, Hilary Wild, and John Williams.

UK gets US cable expert

Larry Carleton, a 28-year veteran of the US cable television industry, has been drafted in to be chief operating officer of the large UK cable joint venture between TCI and US West.

Until a few days ago, Carleton was presiding over the US operations of the Denver-based TCI – Tele-Communications Inc, the largest cable operator in the world.

Now he will be running a joint venture with stakes in cable franchises covering 2.9m homes – equivalent to full ownership of 1.8m, or 12 per cent of all British homes in cable franchise areas.

"We don't like to leave anything to chance," says Jim Dovey, managing director and chief executive of the joint venture, referring to the senior level of the appointment.

Although the venture does not yet have a name, it could turn out to be the most powerful grouping in the UK cable industry since it brings together TCI and US West, one of the large regional telephone companies in the US.

The joint venture holds interests in cable operations with a total of 90,000 cable subscribers. In addition more than 20,000 homes and 5,700 businesses subscribe to a telephone service.

Vacant chair at Lotus

Michael Kimberley, chairman of GROUP LOTUS, the specialist UK sports car maker and automotive engineering consultancy, has been appointed executive vice president of General Motors Overseas Corporation. No successor has yet been named at Lotus.

Group Lotus has been part of General Motors of the US, the world's leading vehicle maker, since 1986.

Kimberley, an automotive engineer and well-known figure in the UK motor industry, joined Lotus from Jaguar in 1969. He held a series of engineering posts before becoming managing director of Lotus Cars in 1976.

He rose to chief executive of Group Lotus in 1983 and remained in that position after the GM takeover until October last year, when he became non-executive chairman.

Now he has moved to Malaysia for GM Overseas, with responsibility for new business development and the sale of GM products.

The company made heavy losses in recent years and, with recession in its principal markets, the US and UK, has been forced to cut drastically the workforce at its car operations. Production has been halted for five weeks until the end of April to stop a build-up of stocks.

■ David Yates is European sales director of HOGAN SYSTEMS (UK) Ltd.

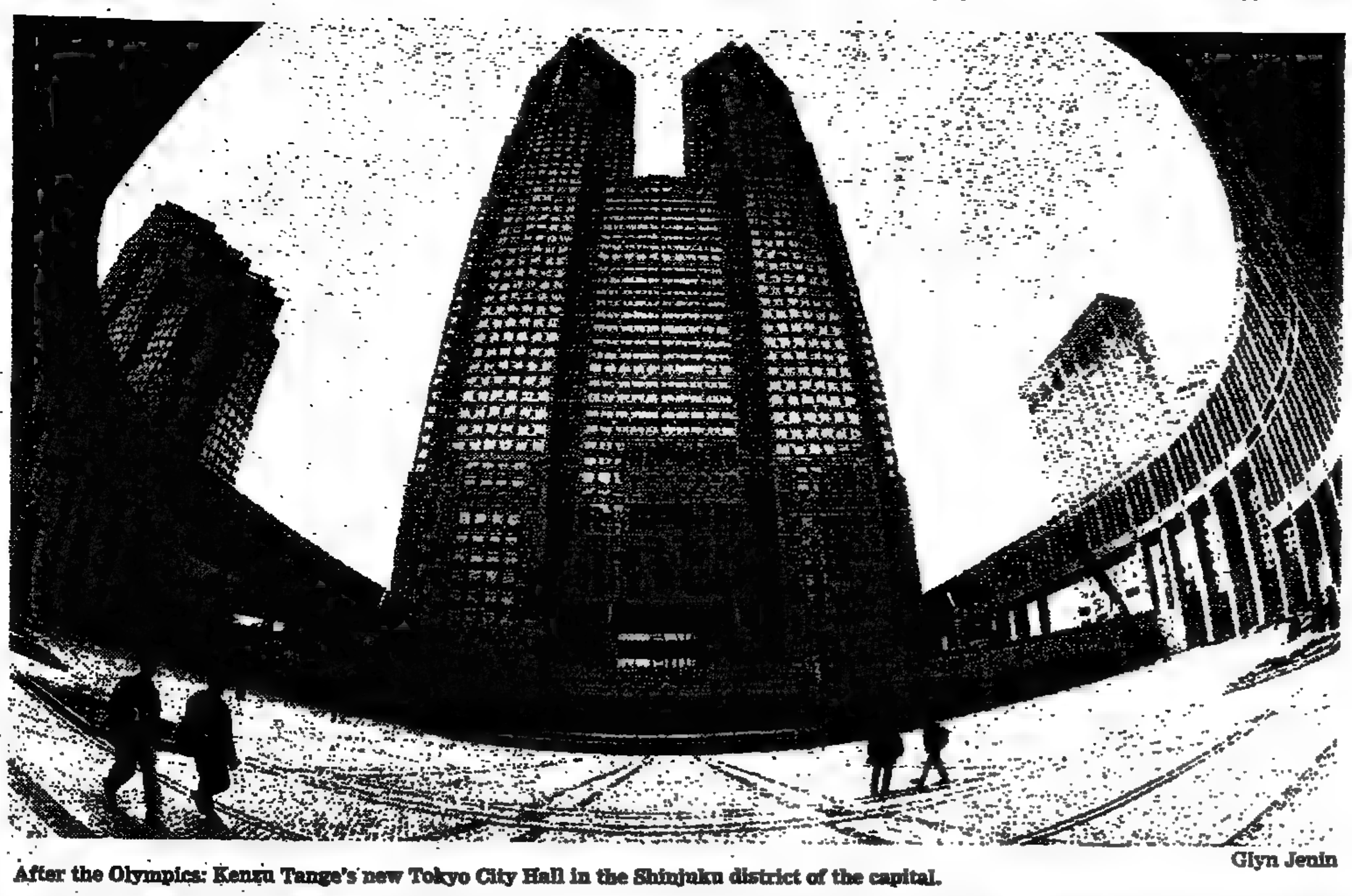
■ Chris Turner joins IBM business associate CSI as sales and marketing director.

■ SIEMENS NIXDORF INFORMATION SYSTEMS has made Mike Molloy divisional director, consultancy and training.

■ Peter Fernandes is head of UK operations, QUME CORPORATION.

ARCHITECTURE

A giant in Tokyo



After the Olympics: Kenzo Tange's new Tokyo City Hall in the Shinjuku district of the capital. Glyn Jenin

Tokyo last year had an operating budget of 7.5 trillion yen. This year the tax revenues have declined for the first time for 36 years, but you would hardly call it a recession, the actual drop in income being a minute 0.2 per cent from the year before. What does the city Governor do when he is so agreeably flush with funds? The answer in the case of Governor Suzuki was to embark on an astonishing building campaign. This great public programme was carried out with no increase in taxes and no deficit financing.

The major monument of this era of public spending is the new Tokyo City Hall – officially known as the Tokyo Metropolitan Government Office – in the Shinjuku district of the capital. The architect, Kenzo Tange, was chosen by way of a competition. Tange became world famous for his Tokyo Olympic stadiums for the 1964 Olympics. These are still remarkable buildings that achieve a sublimation of high-technology structures into elegant forms, evocative of traditional buildings.

The City Hall is a giant. The great mass of the lower floors rises and then splits into two towers that climb to a height of 243 metres. There is a second tower block that rises to a mere 163 metres and a lower complex, housing the Assembly which is built around a Siena-like fan-shaped city square. Scale is what is impressive here. It is manifested not only in the towering height but also in the generosity of the public spaces. The Citizens Lobby is like a giant film set of a public building. Hostesses in navy blue uniforms wave you with white-gloved hands towards the mirrored doors of the lifts. Parties of neat Tokyo school children are swept up to the top floors to enjoy the domed observatory floor where, according to the publicity leaflet they can enjoy "a panoramic view of Tokyo and think about and understand Tokyo and the metropolitan administration."

This is the kind of architecture that is designed to make you feel big and proud – and it works. The towers are the best part. I thought the Assembly Hall was disappointing. Although rich in marble and thick in carpet, it is bland in colour and strangely dominated by the empty symbol of an onyx rising sun. Interestingly enough, the City Hall is much more fun for the public visitor than for the elected officials. Perhaps that is the right way round.

Another aspect of the spending boom is the provision of sport and educational facilities. Four of these have been designed by Fumihiko Maki, a Tokyo-born architect who trained in the US and spent some time working in America for the Skidmore Owings and Merrill practice. His Metropolitan Gymnasium is an exotic, almost organically formed creation with a dramatically shaped metal roof. It stands as part of a public complex with a large swimming pool also designed by Maki, as was the adjoining University Music School. At the Gymnasium I felt the influence of Eero Saarinen – there was certainly more than a touch of the Kennedy airport TWA terminal about the flying roof. The fourth Maki creation close to this complex is the Technology Museum (Tepia), which is more straightforwardly modern but benefits from the use of water at its entrance and the sheer elegance of its cutaway elements.

Throughout these projects there is also something that is very distinctive in Japan – simple and beautiful landscaping. Much of the urban landscaping is hard, using granite or other stone pavings and restrained planting. Fumihiko Maki is in the big league of modern architects – he is very good but, like many things in modern Tokyo, he is not above the influence of trend and fashion. His "spiral" building follows the pointless American trend of "deconstruction" – cutting away the skin of a building to show the inner parts. This is frequently done at the corners to show that the structure supporting the edifice has nothing to do with the walls. *Observers looking at* deconstructed architecture are left to shrug their shoulders and say "so what?".

Fashion can be an influence for quality – if it rises above mere trend. There is no doubt that one architect in Japan at the moment is both high fashion and serious quality and that is Tadao Ando. His work is tough and serious, austere and cold. He is the master of smooth concrete and of defensive planning which creates houses within high walls, where they calmly create their own world away from the frantic city. His plans show a fascination with the intriguing spaces that are made when the square sits inside the circle. I visited one of his recent Tokyo creations that seemed to sum up his essential skills as well as his sense of what is chic.

La Collezione is a group of Italian fashion stores gathered together in a small Ando building. Clothes, hairdressing, a gymnasium and health club all huddle within one of Ando's circular concrete, almost fortified, walls. Access to some of the shops is by lift or a climb up a sweeping spiral stair. All is minimal and grey, but it is très chic. Ando is aware of the noise and visual chaos of much of modern Tokyo and so he fortifies his clients – some mayssay he almost entombs them – to allow the creation of internal,concealed, neutral places in the city.

One imported architect from Italy, Mario Bellini, working with the Obayashi Design Department, has brought another kind of stylish architecture to Tokyo. His Tokyo Design Centre has just opened, and it is a brilliant insertion into the city street. Maximising on the difficulties of the steep site he has put a staircase (another scala reggia) that is partially open to the elements through the centre, allowing access at all levels and giving the impression of a steep Italian street in Tokyo. More than a gesture, it leads the eye to the sloping garden where Bellini has placed one of his famous equestrian sculptures.

Tokyo is rich is good new architecture. It is also visually exciting in rather outrageous ways. There is a lot of sudden colour: the luminous lime-green public telephones, for instance (there are also some searing pink ones); uniformed workers at petrol stations who appear to have stepped from some space programme, gleaming in pink and silver; fluorescent madness in the pachenko parlours (Japanese equivalent of fruit machines); and the delicate eruption of a mass of coloured umbrellas the moment it rains or snows. Tokyo offers tension and creation and energy that have clearly inspired its contemporary architects. If you look hard, the tradition of Japanese minimal elegance can still be found. The city can produce an amazing mixture of restraint and madness.

Colin Amery

NEW VIOLIN CONCERTOS

Andrew Clements

The new violin concertos by Dominic Muldowney and Robin Holloway, premiered in the last fortnight by the Royal Liverpool Philharmonic and the BBC Philharmonic respectively, are big, ambitious pieces, each an important staging post in its composer's development. But there the similarities begin and end. For where Muldowney's work represents a genuinely fruitful attempt to revivify the concerto tradition, and to create something live and dynamic out of the traditional opposition of soloist and orchestra, Holloway's seems more concerned with nostalgic backward glances, fondly and elegantly exploring a lost expressive world without ever colonising new territory of its own.

Though it was completed more than two year ago, Muldowney's concerto is the the most elaborate to date of his experiments in rhythm and in combining different strands of tempo. Here the orchestra is divided left and right into two ensembles, each with its own conductor and set of metronome speeds laid down by computer-generated click tracks. At some points the two groups have totally independent material, at others they share, while the soloist holds the ring between them, looking from one to the other to take tempo cues, sliding first with one and then the other.

It takes us away, says Muldowney, "from the 19th-century notion of the solitary hero struggling against the rest and towards that now common dilemma, a choice between two." He is so adroit in handling his rhythmic constructs that it's the almost theatrical vividness of these shifting liaisons and the teeming invention of the music that is projected, hardly ever the mathematical complexity. So though the components of the slow movement concern themselves with the tempo ratio of 499: 500 the music emerges untrammelled, as a shining rhapsody with the soloist's lyrical subtley inflected lines spun across a gentle, fluctuating accompaniment.

There are three movements, but the concerto is also conceived as a giant set of seven variations on the same Bach chorale *Es ist genug* that dominates the finale of Berg's concerto. In this case though the effect is not at all valedictory. The first movement moves through a kaleidoscope of rhythmic relationships, taking up the first five variations which outline a waltz at one point, a kind of scherzo at another, and always etching the solo line sharply against the busy orchestral detail until it is overwhelmed in the last section. Then after the beautifully poised slow movement, the finale, another single variation, careens along as a toccata while the tempo constantly changes and the textures gather themselves, fall apart and reform.

The performance had been splendidly prepared; the composer and Libor Pesek took charge of the bifurcated Royal Liverpool Philharmonic, and Tasmin Little was a compelling soloist, astonishingly assured in a part that requires her constantly to change tack and yet preserve her poise and sense of proportion. It's undoubtedly a work with which she should gain a stack of engagements.

*

Holloway's concerto is a good deal more straightforward, and for all its incidental beauties, finally lacks a distinctive character. Holloway declares it to be a homage to the French tradition, burying away a Fauré song at its emotional centre and it certainly provides the soloist – Ernst Kovacic, for whom Holloway wrote his winning violin Romanza 15 years ago – with succulent, grandly expressive opportunities. Yet Holloway's gentle reflections and tonal shifts evoke other references – back to Elgar in the fruitiest passages, to Berg in its more bittersweet moments. It is all very pleasant and easy on the ear with a refinement and discipline which some of Holloway's recent music has lacked. But unlike the Muldowney it never leaves the impression that there are yet more rewards hidden beneath the surface, awaiting discovery.

Liverpool Royal Philharmonic/BBC Radio 3

Richard's Cork Leg

Richard's Cork Leg is Brendan Behan's last play, left unfinished at the time of his death in 1964. It was *left to his friend, the Dublin direc*tor Alan Simpson, to make sense of the play's missing ending from the numerous wordy and rambling drafts the author left behind, and it is surprising how well this endearing short satire has weathered since it was premiered in the early seventies. At the time it caused a good deal of controversy in Behan's native Ireland, where his work was often banned, being denounced by the Irish clergy as blasphemous.

The play is set for the most part in a Dublin cemetery – "one of the healthiest graveyards in Ireland" – used as a regular gathering place for a company of off-beat castaways: colourful tarts, phoney blind men, zealous Protestants and Irish revolutionaries and fascists. There isn't much of a plot to speak of but rather a college of characters given the opportunity to air their views on love, religion, politics and death.

The fast dialogue of witty non sequiturs and whimsical comments on the state of humanity is occasionaly interspersed with bursts of songs of bawdy humour. Merriment and reflection are the hallmarks of the evening, but in the background death beckons in the shape of a large coffin placed centre-stage.

Behan's anarchic world springs to life with energy and verve if little polish, but in a way this lack of discipline goes hand in hand with *the author's own ungovernable* chatter. Julia Hallawell and Paula Hughes are most engaging as the two mini-skirted and bejewelled prostitutes who protest against Mrs Mallarkey's report of "free love" sweeping the island and threatening their trade.

The central character of Cronin, probably the author himself, is played with comic tenderness by Anthony Kernan. The scene in which he competes for the favours of Denise Kean's prim Deirdre is truly touching as she becomes both a reluctant and a willing object of his attentions. Maxine O'Reilly is the spoil-sport Mallarkey who strongly disapproves of her daughter's association with the married Cronin.

Directed sympathetically by Iain Charles Hake, who has left out some of Behan's rowdy songs, this is an evening of spontaneous laughter, a a welcome revival of a rarely performed play.

Ljubima Woods

Pentameters, Heath Street, NW3
Booking Office: 071-435-6757.

Music in London

Leiferkus/Warsaw Philharmonic

Sergey Leiferkus, an outstanding artist on the concert platform no less than on the operatic stage, seems in peak form just now. On Thursday at the Purcell Room, in the latest instalment of the hall's current song-recital series, he gave a spellbinding demonstration of his powers.

He imposes a recitalist's cultivated authority on every song; the bounds of the medium are adhered to with faultless skill and taste, with complete avoidance of the overblown rhetoric that inevitably betrays an opera-baritone out of his element. Yet into the current of his performances the listener is drawn by an irresistible pull of dramatic magnetism.

By means of physical and vocal demeanour exactly judged and allied, Leiferkus compels attention in a way given to very few of his contemporaries. This was particularly evident in Thursday's concert. The programme mixed lesser-known Borodin, Dargomyzhsky, Glinka and Kabalevsky songs, with only a *few* Tchaikovsky and Mussorgsky favourites as encores; the hall, even with its new coloured prints and potted palms, remains a miserable place for song recitals.

The dangers of worthy dullness were all too apparent. Instead, one hung on every note and word. Simply as an example of a mastersinger's art, the occasion was continually remarkable – the dynamic range wide, the phrase-shaping supple, the attack sharp-pointed, a dark brilliance in the top register giving a special punch to climaxes.

The second-half selection of seven Kabalevsky settings (in Russian translation) of Shakespeare sonnets seemed in themselves musically mild, Rakhmaninov-and-water stuff; yet so broad and subtly varied were the performances (in which the pianist, Semyon Skigin, played a vividly communicative part in spite of occasional finger-flusters), that a truly Shakespearean dimension was suggested after all.

*

To the same hall on Tuesday the Hungarian clarinettist Kálmán Berkes brought a no less compelling artistic magnetism. He is the leading light of the Budapest Wind Ensemble, but here, with the pianist Piers Lane in excellent form, he showed himself a soloist of virtuoso technique and bold personality.

In Schumann, Saint-Saëns and Rossini, the delivery was light-years removed from the well-groomed, low-key musicianship characteristic of British clarinet-players: Mr Berkes made a lean sound, sometimes fiercely (but never unpleasantly) sharp-edged, and cut his phrases with piquant wit. He shared the recital, and Mr Lane's piano-partnership, with Ani Schnarch, a young Romanian violinist with a thrillingly uninhibited approach to Bartok's First Violin Rhapsody and Second Sonata: pungent, fiery, securely controlled.

Max Loppert

The Warsaw Philharmonic Orchestra and its music director of 15 years standing, Kazimierz Kord, paid a visit to Barbican Hall on Thursday night, and the first of their three items – the Polish one – was much their best performance. Lutoslawski's *Trauermusik* for string orchestra of 1958, four concise movements in a continuous mourning sequence, leans heavily on Bartok and to my ears has a Brittenish feel also, but is clearly moving towards the more stringent dissonances and the sonorous freedoms of Lutoslawski's mature voice, and in this intent, sharply focused account came over as a work of masterful musicianship.

Its sombre tone-colours – greys, blacks, dark browns – promised a satisfying contrast to Ravel's G major piano concerto immediately following; but the firework brilliance associated with this music was not forthcoming. Ewa Poblocka was a soloist of almost spinsterish reluctance and reserve. Her delicacy and gentleness of approach readily became deadness and gentility; she lingered so long over the slow stretches of the Allegro first movement that the real slow movement had little to offer; and she played the latter's long opening solo with a disarmingly white and lifeless elegance. Of the concerto's sauciness, blowsiness and jazzy fun we heard next to nothing, whether from soloist or orchestra.

The brass department had its problems in the first movement, but one would not have minded fluffs if there had otherwise been flair. In Strauss's great orchestral showpiece of a tone poem *Ein Heldenleben* the lack of this quality, of vibrant individual stylishness from the section-leaders and a proud collective virtuosity, was fatal. Ewa Marczyk's violin obbligato, it is true, was perfectly decent, but scant instrumental panache was available elsewhere; while the immensely sustained climactic *tutti* of Part 4 was stodgy and indifferent (the hall's acoustics only partly to blame). The performance needed a far greater variety and far higher definition of colour. Instead of dazzling, it sounded routine, and a routine *showpiece* makes no sense at all.

Paul Driver

INTERNATIONAL

ARTS GUIDE

TODAY'S EVENTS

■ ATHENS

Concert Hall *20.30 Vaganova* Ballet School in choreographies by Fokine, Petipa, Vainonen, Legat and Anisimova, also tomorrow and Wed. Sat: concert by Orchestra ton Chromaton (722 5511)

■ BARCELONA

Palau de la Musica 21.00 Guy Touvron plays baroque trumpet concertos with the Tokyo Soloists. Tomorrow: Andrei Gavrilov piano recital (268 1000)

■ BERLIN

MUSIC

Schauspielhaus 20.00 Peter Maag conducts the Berlin Symphony Orchestra in Debussy's Iberia, Mendelssohn's Violin Concerto (soloist Daniel Heifetz) and Beethoven's Sixth Symphony. Tomorrow and Wed: Celibidache conducts the Berlin Philharmonic. Thurs, Fri, Sat: Bernhard Klee conducts the Berlin Symphony Orchestra. Sun: Bach's St John Passion (East Berlin 2090 2156)

Deutsche Oper 19.30 *Madama* Butterfly, with Yoko Watanabe in the title role. Tomorrow: Aida. Wed: Roland Petit ballet evening. Thurs: Die Zauberflöte. Fri: Il trovatore. Sat: Aida (West Berlin 3410 249)

Staatsoper unter den Linden *19.30 John Cranko's ballet The* Taming of the Shrew. Tomorrow: Il barbiere di Siviglia. Wed: Zar und Zimmermann. Thurs: Der Freischutz. Fri: Die Zauberflöte. Sat: Salome. Sun: Sleeping Beauty (East Berlin 2004 762)

THEATRE

West Berlin: *the Schaubühne* has Botho Strauss' Schlusschor on Wed, Fri and Sat (890023). The Schiller Theater repertory currently includes plays by Molière, Schiller, Lessing and Gerhart Hauptmann (3195 236). The Theater des Westens has *the musical* Sweet Charity (3190 3193). The Theater am Kürfurstendamm has a stage version of Woody Allen's A Midsummer Night's Sex Comedy (8823 789).

East Berlin: the Maxim Gorki Theater Carol Churchill's Top *Girls on Thurs,* Arthur Miller's Death of a Salesman on Sat and Jean Genet's The Maids on Sun (2082 748). The Deutsches Theater repertory includes plays by Kleist and Schiller (2871 225), plus Peter Shaffer's 1987 comedy Lettice and Lovage at the Kammerspiele (2871 226).

■ BOLOGNA

Teatro Communale 21.00 Tamas Vasary is director and piano soloist with the Bournemouth Sinfonietta in a programme of music by Malcolm Arnold, Nielsen, Mozart and Schubert. Tomorrow, Fri and Sun afternoon: Francesca da Rimini (529999)

■ COPENHAGEN

Bournonville Festival at the Royal Theatre Tonight: Abdallah. Tomorrow: Napoli. Wed: The King's Volunteers on Amager and La Sylphide. Thurs: triple bill. Fri: A Folk Tale. Sat: Bournonvilleana (3314 1002)

■ FRANKFURT

MUSIC

Alte Oper 20.00 David Shallon conducts Bach's B minor Mass. Tomorrow: Frank-Peter Zimmermann plays Beethoven's Violin Concerto. Wed: Barclay James Harvest. Thurs and Fri: Marcello Viotti conducts the Frankfurt Radio Symphony Orchestra in works by Copland, Gershwin and Bernstein (1340 400). Thurs at Jahrhunderthalle Hoechst: Andrew Davis conducts the BBC Symphony Orchestra (3601 240)

Opernhaus 20.00 William Forsythe's ballet-musical Isabelle's Dance, also Thurs. Wed: Un ballo in maschera with Mara Zampieri. Fri and Sun: La clemenza di Tito. Sat: Carmen (236061)

THEATRE

Tonight's performance at the Schauspielhaus is The Merchant of Venice. The Kammerspiele has Schiller's Maid of Orleans. The repertory also includes plays by Gerhart Hauptmann and Samuel Beckett (2123 7444). The English Theater Kaiserstrasse has Anthony Shaffer's thriller Sleuth, daily except Mon till May 2 (2423 1620)

■ MADRID

Auditorio Nacional de Musica Aldo Ceccato conducts Beethoven's Ninth Symphony, in a concert celebrating the 50th anniversary of the Spanish National Orchestra (337 0100)

■ MUNICH

Staatsoper 20.00 Emmanuel Krivine conducts the Bavarian State Orchestra in Franck's Psyche, Bartók's Second Violin Concerto (Kyoko Takezawa) and Rimsky-Korsakov's Scheherazade, repeated tomorrow. Wed and Sun: Tony Palmer's new production of Dvořák's Dimitrij. Thurs: Peter Wright's production of Sleeping Beauty. Fri: Die Liebe der Danae. Sat: Don Giovanni (221316). This week's Munich Philharmonic Orchestra concerts at Gasteig (Thurs, Fri, Sun morning) are conducted by Hiroshi Wakasugi, and feature orchestral and vocal rarities by Ravel and Debussy (48098 614)

Kammerspiele The current repertory includes Botho Strauss' play Schlusschor, Goethe's Stella, and Faust Part 1 (23721 326)

● A selection of theatre and concert tickets is available at Konzertkasse Beck on the fourth floor of the Beck department store at Marienplatz 11

■ NEW YORK

Carnegie Hall 20.00 Georgia Youth Chorale in a programme of music by Gabrieli, Offenbach, Gershwin and others. Tomorrow: Yuri Temirkanov conducts the Philadelphia Orchestra. Thurs and Fri: Barenboim conducts the Chicago Symphony (247 7800)

Metropolitan Opera 20.00 Le nozze di Figaro, also Thurs. Tomorrow and Fri: Elektra. Wed and Sat evening: La fanciulla del West (Domingo). Thurs: Le nozze di Figaro. Sat afternoon: Billy Budd (362 6000)

■ PARIS

Opéra Bastille 20.00 Song recital by Dimitri Hvorostovsky. Tomorrow: first night of new production of Un ballo in maschera, with Luciano Pavarotti (4001 1616)

Théâtre des Champs-Elysées 20.30 Piano recital by Christian Zacharias. Tomorrow: Gary Bertini conducts the Cologne Radio Symphony Orchestra. Thurs: Nelson Freiere plays Chopin with the Orchestre National de France (4720 3637)

Auditorium, Forum des Halles 19.00 Hans Zender conducts the Ensemble InterContemporain in a programme of choral works by Luigi Dallapiccola. Today, Wed and Fri at 12.45: lunchtime recitals by the Chilingirian Quartet. Tomorrow: song recital by William Mateuzzi. Wed: piano recital by Nelson Goerner, first in a series of solo concerts by international prizewinners (4028 2840)

Auditorium 104 de Radio France 20.30 Organ recital by Jennifer Bate. Fri: Romani Gandolfi conducts choral works by Stravinsky, Penderecki and Petrassi (4230 2222)

■ VIENNA

Staatsoper 19.30 Tosca with Mara Zampieri, Giuseppe Giacomini and Alain Fondary, also Fri. Tomorrow and Sat: Khovanshchina. Wed: Salome. Thurs and Sun: Entfuhrüng (51444 2960)

Konzerthaus 19.30 Beat Furrer conducts Klangforum Wien in music by Janacek, Denisov and others. Tomorrow: Austrian Chamber Symphony Orchestra. Wed: piano recital by Oleg Maisenberg. Thurs: Scharoun Ensemble. Fri: Ensemble Modern (712 1211)

■ ZURICH

Opernhaus 20.30 Cecilia Bartoli, accompanied by Georg Fischer, sings Rossini arias. Tomorrow: Ligeti's Le Grand Macabre (262 0909)

Tonhalle 19.30 Jean-Claude Casadesus conducts the Orchestra National de Lille in Brahms' Violin Concerto (soloist Joshua Bell) and Chausson's Symphony in B. Repeated on Wed in Lausanne, Sat in Geneva and Sun in Basle (Klubhauskonzerte 01-277 2040). Tomorrow in Zurich: Isaac Karabtchevsky conducts the Tonhalle Orchestra (201 1580)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0830-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
0830-0900 (Tues) Spiegel TV – Intl Report – the real world of documentary
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly
2130-22.00 (Fri) Spiegel TV – Intl Report

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1930-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

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Monday March 30 1992

Tough line on convergence

1992 is only a quarter gone; but already the Italian budget deficit is expected, as usual, to overshoot its target. This is not the only unfortunate Italian tradition that will be continued this year. Next Sunday's general election is expected to produce yet another weak, multi-party coalition government, unable to take tough measures to cut spending and raise taxes. Italy looks less likely than ever to be able to meet the convergence criteria laid out in the Maastricht Treaty, and qualify on that basis to join a European monetary union.

Unless, that is, the convergence criteria are weakened. The potential for such a fudge exists. The convergence rules for inflation and long bond interest rates are relatively straightforward and should pose few problems for most potential members. But the more important rules concerning government deficits and debts are much more vaguely specified.

The treaty appears, at first sight, to prohibit from membership any country with a deficit greater than 3 per cent of gross domestic product or outstanding gross public debt above 60 per cent of GDP. If applied to the letter, these rules would keep Belgium, Ireland, Greece, Italy, and probably the Netherlands out of Emu for the rest of the decade. But these ceilings can be waived if a country's deficit is deemed to be "only exceptional and temporary" or if the debt stock is approaching 60 per cent of GDP "at a satisfactory pace."

'Excessive deficits'

The European Commission, responsible for policing these "excessive deficits", is likely to interpret the fiscal rules in a relatively soft way. The 60 per cent debt ceiling has effectively been dropped – Commission officials argue that it was only ever intended to be a "a directional criterion". Thus the fiscal convergence plan drawn up between the EC and the Italian government is intended to reduce the Italian budget deficit to 3 per cent of GDP by 1996. That would produce a primary budget surplus, excluding interest payments, well above the 3 per cent needed to stabilise the debt stock, but the stock of outstanding government debt would still far exceed the Maastricht debt rule. Slow economic growth might also produce a "temporarily" excessive deficit. Italy would then apply to join Emu while strictly failing both fiscal rules.

The Maastricht Treaty was, of course, always intended to be interpreted by politicians and economists rather than statisticians. A rigid numerical application of the convergence criteria would make little economic sense. It might seem strange to require countries to reduce their inflation or nominal interest rates to best European levels before they are allowed to join a monetary union the aim of which it to force inflation convergence. And there is no compelling economic logic behind the precise deficit or debt ceilings.

Profligate countries

Yet heavily indebted governments with unsustainable budget deficits or high inflation should be prevented from joining. There is no reason why the rest of Europe should bear part of the cost of their profligacy. The fiscal rules are also politically important. Only a high, if arbitrary, hurdle over which presently profligate countries must jump will reassure the rest of Europe, and Germany in particular, that these countries will not be allowed to destabilise Emu. In Italy, the fiscal rules are also needed to force the institutional reforms required to bring the budget under control.

Italy's constitution is not up to the task. Last year the deficit overshot its original budget projection by 16 per cent. For 1992, the finance ministry already expects an overshoot of 25 per cent. Even to jump the fiscal deficit hurdle by 1996, a reduction equivalent to 7 percentage points of GDP, will require tougher choices than its politicians are currently able to make: to cut public spending, reduce industrial subsidies or embark on an ambitious privatisation programme.

Without some form of constitutional reform, Italy's budgetary impasse will remain. The stick of the convergence criteria and the carrot of Emu together may provide the necessary incentive for reform. It is not in Italy's interests for it to be offered a soft option. Attempting to provide one would risk breaking the already shaky political consensus on which the success of Emu depends.

A very American recovery

A SECOND good month of consumer spending growth in the US, which reflects rising consumer confidence, gives some ground at last for believing the US recovery is here to stay. But even now, six months into the uptrend, there are grounds for caution. Consumer spending will almost certainly weaken this month, due to vile weather, and real disposable income is only one per cent up on the last full year. The housing market continues a vigorous bounce back from a very deep slump, but other sectors remain weak – commercial building, defence, and recently exports, the main driving force in the recovery, until recession began to depress overseas demand.

Modified rapture, then. With one voice, the governors of the Federal Reserve have said that they expect future progress to be sluggish, and hinted that they are still alert to the possible need for further stimulus. There is still little sign of employment growth, which may be needed to sustain confidence; but inflation remains as subdued as ever, allowing the authorities some room for manoeuvre. In short, this is still, up to this point, a weak recovery by normal US standards, and certainly well short of the vigour which the president longs to see – hence the administration's renewed calls for further interest rate cuts.

Cautious view

However, this could well prove too cautious a view, reflecting only an over-correction by forecasters. The revised fourth quarter GDP figures contain the explanation: a considerable and no doubt unwanted build-up in wholesale and retail inventories. In other words, and not for the first time, the distributive trades jumped the gun on a forecast of recovery. As these stocks are cleared, demand should feed through more rapidly to output. The important feature of the employment figures is not that they still show no growth, as the pessimists have stressed, but that they have stopped getting worse. The fear of unemployment – the biggest brake on spending – is fading in most parts of the US. The south is already enjoying a much more vigorous upturn. And there are good reasons to hope that as the usual cyclical recoveries in consumer durables and investment gather force, this will be at least within the range of normal cyclical recoveries, which suggests a real growth rate of at least 3½ per cent.

Even if this is too optimistic, the present US outlook, as seen from Berlin or Tokyo, and above all from London, looks enviable. America's trade partners may be hoping that the traditional locomotive of world growth is once again getting up steam, but it is far too early to call this hope realistic. The structure of demand in the recovery, led by housing, household durables and cars, will have its main initial impact on US domestic industry, as soon as still excessive inventories are cleared, and on its geographically nearest partners – Canadian lumber, and the branch factories growing so rapidly in Latin America.

Weak dollar

Above all, the continued gross under-valuation of the dollar will make it difficult for exporters from Europe or Japan to get much benefit from rising US demand. The European motor industry, for example, had suffered heavy losses in market share before the recession. In some capital-intensive industries, such as pulp and paper, recovery may even make the competitive position still worse, as rising output lowers US unit costs.

Indeed, the thinking which relies on US recovery to trigger growth in the rest of the world is dangerously out of date. It looks back to two misleading precedents – the Bretton Woods world of nearly fixed exchange rates, and the Reagan episode of heroic fiscal stimulus, which made the US the world's largest capital importer. The best precedent for the present conjuncture is neither of these, but the era of competitive devaluations in the 1930s. Japan is facing the consequences of a deliberate domestic disinflation, while Europe has collectively decided against following the US example of monetary stimulus in a free float – and would be joining in a zero-sum game if it tried. A US recovery is much better news than a US recession, but does not alter the fact that America's trade partners must work out their own salvation.

Team short of match practice

Philip Stephens assesses the calibre of Labour's cabinet-in-waiting

They have perfected the art of opposition. In 13 years they may have to start learning how to govern. Mr Neil Kinnock and his colleagues are not yet looking beyond the election. The 13 years spent in the political wilderness has left them too superstitious to take for granted a fractional lead in the opinion polls. Last week's row over health reminded them just how easily even the most professional election campaign can be derailed. So far the Conservatives have been bruised but not beaten.

The Labour team is conscious also that the approach of April 9 will turn a harsher spotlight on to just how well-equipped for government is a party which has not ruled since 1979. Three successive Conservative victories have given resonance to Labour's claim that it is time for change. The Tory wins have also provided substance to Mr John Major's charge that the opposition lacks the calm authority needed to steer Britain in an uncertain world.

If he wins, Mr Kinnock will enter Downing Street with one of the least experienced teams ever to take office. The Labour leader has been in parliament since 1970 but has never held a paid government post.

Mr Tony Blair, the aggressively bright employment spokesman, has had a pivotal role since 1987 in the party's shift to the political centre ground. He was 16 years old when Labour last won a general election in 1974.

Mr Gordon Brown, the 41-year-old trade and industry spokesman and a candidate in any future leadership contest, is among the two-thirds of the party's front bench team who have never experienced life at Westminster with Labour in power.

Mr John Smith, the shadow chancellor, and Mr Roy Hattersley, the deputy leader, are alone among elected members of the shadow cabinet in having sat around the real cabinet table in 10 Downing Street.

The sober-suited guardian of his party's painfully reconstructed economic strategy, Mr Smith would find the transition easy. The shadow chancellor is instinctively conservative, a creature of government rather than opposition.

The exhaustive review of policies which followed defeat at the last election in 1987 has persuaded Mr Kinnock that he leads an opposition as well prepared as any in history. Behind a slim manifesto lie a clutch of detailed documents setting out an agenda stretching far beyond a single term in office.

In the first year alone the manifesto promises an economic recovery programme, devolution for Scotland, a freedom of information bill, repeal of the council tax, reversal of the Tory health service reforms, an overhaul of training and education policies and a statutory minimum wage.

The review – the route through which Mr Kinnock dumped his party's ideological baggage – forced Labour to map out in detail the alternatives both to its own socialist past and to the Tory agenda.

But overwhelmingly the politicians who would be charged with implementing this programme are men and women whose experience has been shaped by the priorities of opposition rather than of practical policy-making.

The cabinet would be undeniably Mr Kinnock's. The mutterings about his leadership which have surfaced when Labour has lagged in the opinion polls have not weakened his grip on the leadership. Mr Smith is more popular with the voters, but nine years as leader have tightened Mr Kinnock's grip on the levers of power.

That authority does not mean his government would be shaped entirely in his own image. Once installed in Downing Street a Labour leader can choose his team, but the cabinet he starts with is the one elected in opposition by the party's MPs.

Mr Kinnock's team is young – most are in their 40s or early 50s – and overwhelmingly the product of the very grammar schools the party is pledged to abolish. But it is far from uniform in style or outlook.

The abrasive self-confidence of Mr Gerald Kaufman, the shadow foreign secretary, contrasts with the softly-spoken obscurity of Mr David Clark, the agriculture spokesman. The self-effacing style of Mr Donald Dewar, the spokesman for Scotland, is offset by the explosive unpredictability of Mr John Prescott, the transport spokesman.

Mr Hattersley, guaranteed the Home Office as well as the deputy leadership, has an awkward habit of reminding more technocratic colleagues that the party remains committed to greater equality as well as to competent economic management. His relationship with Mr Kinnock is sometimes cool but friends insist there are fewer divisions on the central policy issues which would confront a Labour government than Mr Hattersley's less cautious rhetoric implies.

Mr Kaufman, promised the foreign office after extricating the party from the minefield of unilateral disarmament, does not slot easily into any cliques. Widely credited with describing the party's isolationist 1983 election manifesto as the "longest suicide note in history", his approach to foreign policy is both pro-Nato and pro-European. The social chapter of the Maastricht Treaty and economic and monetary union would be embraced as part of a strategy to "promote Britain out of the European second division".

There are few traces in the shadow cabinet of the factionalism and left-right divisions which bedevilled the governments of Mr Harold Wilson in the 1960s and 1970s.

But Mr Robin Cook and Mr Bryan Gould, responsible for health and the environment respectively, might prove powerful advocates of a strategy to rediscover in government some of the radicalism the party has suppressed in opposition.

Mr Frank Dobson, the energy spokesman and Mr Michael Meacher, responsible for social security, fall into a loose leftist category, as do Ms Anne Clywd and Ms Jo Richardson, entrusted with overseas development and women's affairs. Mr Meacher, deeply mistrusted in the leader's office, would be among the most likely casualties of any early reshuffle.

More broadly, there is private acknowledgement that some of the policy tensions which have been suppressed willingly in opposition could quickly re-emerge in government.

The commitments pencilled in by Mr Smith in his shadow Budget may not satisfy the expectations of many of those running Whitehall spending departments.

Colleagues believe that Mr Kinnock's refusal to contemplate any devaluation of sterling reflects a private as well as public conviction. But if the economic outlook proved to be as gloomy as it now looks, there might be dissenting voices in his cabinet. On their past records, Mr Cook and Mr Gould would not share the view that the pound's value was sacrosanct if the price was a retreat from a stronger welfare state.

But Mr Kinnock's cabinet would not be a government bursting with radicalism. His long, often embarrassing journey from the rebellious left to the centre-right of his party has obscured a new-found conservatism. The politician who in 1981 was too busy to attend Prince Charles's wedding is now prepared to boast of his visits to Windsor Castle.

Earlier advocacy of a command economy cut loose from Brussels has been replaced by a conviction that Germany and France are the appropriate models now for a Labour Britain. A vibrant manufacturing sector has replaced equality as Mr Kinnock's Holy Grail.

Close friends predict that once in Downing Street Mr Kinnock would combine a tight grip on his cabinet with a "conventional" relationship with the civil service establishment. A shadow cabinet colleague says: "He would want above all to prove that he was up to the job."

The scars inflicted by the strife within his party have also brought with them a streak of authoritarianism. Mr Kinnock puts a premium on loyalty. He is contemptuous of those who prefer the "self-indulgence" of dissent.

His aides are understandably resentful of any comparison with Mrs Margaret Thatcher's autocratic style. They insist that the question he asks is not "Are you one of us?" but rather "Can you deliver?"

Mr Kinnock's instinctive conservatism would be shared by the most powerful figures in a Labour cabinet.

There have been tensions between Mr Kinnock and Mr Smith. The shadow chancellor is not shy about acknowledging his immense contribution to the party's bid for power. He has powerful backing from Mr Jack Cunningham, the campaign co-ordinator who would expect to become leader of the House of Commons. But personal rivalries between them have not spilled over into fundamental policy differences.

The industry and the employment spokesmen are among prospective members of a powerful inner cabinet promoting Mr Kinnock's vision of European-style social democracy. Mr Brown, responsible for the interventionist industrial strategy at the heart of Labour's economic programme, is a close, if sometimes competitive, ally of the shadow chancellor. Mr Blair has demonstrated by reshaping the party's industrial relations strategy that youth and a public school background are no obstacle to his handling of the trades unions.

Mrs Margaret Beckett, once a left-wing firebrand but now charged with maintaining a tight grip on the purse-strings as shadow chief secretary, completes the team of "realists" in control of economic policy.

Mr Cook and Mr Gould have a different relationship with Mr Kinnock. Both at times have been among his most strongest supporters. Both on other occasions have fallen out with him. To some in the leader's inner circle Mr Cook's advocacy of electoral reform and Mr Gould's residual Euro-scepticism make them too "independent-minded".

But along with Mr Jack Straw, the education spokesman, both Mr Cook and Mr Gould meet the criterion of politicians who can deliver.

Deliver, that is, in opposition. For now Mr Kinnock can claim nothing more for any in his team. They jettisoned the old ideologies and crafted a set of policies which has made Labour electable. They have mastered the art of political point-scoring. But if he wins on April 9, Mr Kinnock may well discover that the realities of life in government are harsher still.

PERSONAL VIEW

A sensible bank merger

By Sir Kit McMahon

The recently announced intention of the Midland and Hongkong banks to merge raises questions about the future of British banking. I shall discuss two of them, but in doing so I may not be able to display the appropriate degree of objectivity. Having spent much effort trying to bring this merger about, and having apparently failed 18 months ago, the possibility that it might now actually occur fills me with a pleasure as intense as it is wry. So the reader may need to aim off.

The first question is: if the UK is over-banked, would not an intra-market merger be strategically better than one with an overseas bank? The second is whether, in view of so many mistakes, banks are wise to aspire to global status rather than stick to their back yards?

Is the UK over-banked? If one thinks of personal banking services, the answer must be yes. Including building societies, there are some 650 institutions operating some 20,000 branches engaged in selling and processing a limited range of inherently simple products for the personal customer: loans, including mortgages; deposits; the receipt and payment of cash and the transfer of monetary claims and liabilities.

With most institutions having a small share of the market for these products (even Barclays, the biggest UK clearer, has less than 14 per cent of deposits) there could be many mergers before problems with the Monopolies and Mergers Commission would arise on this count.

Individual mergers could help to reduce the duplication of resources. But they could provide only a partial solution because the problem arises less from the number of players than from the wasteful way in which the industry distributes its products. Few personal banking services require either a visit to a branch or the kind of paper and labour intensive processing now done in branches.

It will be a long time before the revolution in methods of distribution is complete, but the elements of a solution are already visible: automated teller machines; telephone and postal banking; centralised processing and electronic transmission networks. In the end, it will be the application of technology, money and imagination more than greater concentration which will reduce the economic waste in distributing personal banking services.

For the banks' corporate customers, the picture is different. The UK already has one of the most concentrated corporate banking industries in the world. If Natwest's existing share of the small business market were to emerge now as the result of a proposed merger, it is very unlikely that the MMC would allow it. For the handful of banks in this market, it is hard to avoid both bad debts and criticism. (Abbey National's shareholders must be praying that they do not try to enter it). There are doubtless many ways in which banking support to the corporate sector could be improved, but it is hard to believe that further reducing customers' already limited choice is one of them.

For the largest companies, including the multinationals, the picture is different again. Competition to provide banking services to these clients has been worldwide and intense. Corporate treasurers have played banks off against each other, driving margins down to derisory levels, while economic conditions and management errors have led to some significant losses for the world's largest banks. There must be a temptation for a big bank to withdraw from this field altogether.

But generally, this cannot be a correct response. Business, even medium-sized business, is becoming increasingly international. Some banks at least will have to follow it. Within a decade, there may be perhaps a dozen or so truly global players. And conditions are already changing to make their role a profitable one. Multi-banking without loyalties does not look so smart for a company when the going gets rough. There is now a clear move back to relationship banking. The recent behaviour of the Japanese banks (everyone in – everyone out) has been an object lesson.

A merger between the Hongkong Bank and Midland would mean that the UK would have three truly international banks. And the new bank would probably be the only non-Japanese global bank with a substantial presence in Asia, the fastest growing area in the world.

Of course, as in any industry, global size has its risks. The decentralisation of management that is essential carries dangers of loss of control, which can be especially serious for a bank. Financial and credit controls will have to be tight. But size can convey great advantages. For Hongkong/Midland, the integration of their worldwide treasury operations and their correspondent banking and trade services would be very valuable. Size and geographical spread would enable them to serve corporate customers particularly well. And capital strength would help with credit rating and Midland's ongoing attempts to rationalise and reduce the cost of its retail banking.

The author is the immediate past chairman of Midland bank

Fierce competition and declining demand from consumers threatens a shake-out among UK bread producers, says **Guy de Jonquières**

Britain's baking industry fights for every crumb

Food manufacturing is supposed to sail through recessions, because consumers always have to eat. But for Britain's £3bn-a-year baking industry, these are proving some of the toughest times since the invention of sliced bread.

The bakers' plight challenges conventional assumptions about the advantages of size and cost efficiency in a mature sector. It also offers striking evidence of how far the rise of powerful supermarket chains has transformed the balance of competition in Britain's food industry.

Cut-throat competition has slashed the retail price of standard white loaves – the biggest-selling type of bread – from about 40p each to less than 30p in many stores. The profits and share prices of Associated British Foods (ABF) and Ranks Hovis McDougall (RHM), the country's largest bakers, have been clobbered, and many smaller companies appear to be clinging on by their fingernails.

Source: Key Note Report

With UK bread consumption in long-term decline and surplus production capacity estimated at 10-15 per cent, the stage seems set for a shake-out of the kind which forced Spillers out of the business in 1978. Says Mr Mike Handley, managing director of RHM's bakery division: "There is just too much equipment out there making bread people don't want to eat."

ABF and RHM together account for about two-thirds of bread sales and are the only bakers with nationwide brands and distribution systems. Both have invested heavily to cut costs by concentrating production in fewer, bigger plants equipped to bake as many as 8,000 loaves an hour – more than 10 times the maximum capacity 20 years ago.

Yet size has not guaranteed invulnerability. Baking neither requires sophisticated technology, nor depends on expensive equipment. Furthermore, scale economies are quickly exhausted. "A bakery doesn't have to be national to be efficient," says Mr Garry Weston, chairman of ABF. "You can be as efficient with one plant as with 20."

That has allowed about a dozen small independent bakers to challenge the industry goliaths by cutting prices to the bone. The Davids keep costs low by operating only regional distribution facilities and buying flour from small independent millers for less than ABF and RHM, which have in-house milling operations. The Davids' trump card is that they can survive on wafer-thin margins. As family businesses, they have leaner overheads than ABF and RHM and do not need to earn the financial returns that the City expects of the two big companies.

But the small companies, many of which have built new plants in the past few years, could never have succeeded without the large supermarket groups. As these have come to dominate bread sales, the big bakers' control over the market has grown steadily weaker.

Their grip began to loosen in the 1970s, when two national baking strikes halted bread supplies. Since then, the trend has been accelerated by the spread of supermarkets' own in-store bakeries and by their growing reliance on "own label" packaged bread, now more than 40 per cent of sales.

'The people running the bakeries now aren't bakers, they're engineers,' says one veteran

These developments have undermined the big bakers' brands and their bargaining power with supermarket buyers, who have been increasingly ready to switch orders to the independents unless their terms are met.

This ought to be good news for consumers. However, there are growing signs that pressure to compete on price has led to compromises on quality. Says Mr David Lang, a respected industry analyst with stockbrokers Henderson Crosthwaite: "A lot of the cheaper bread on sale is muck."

That is a further setback for an industry desperate to persuade an already sceptical market that its product is rich in nutrition. Although the claim is backed by scientific evidence, opinion polls regularly find many consumers consider ordinary bread unhealthy.

Despite growth in demand for ready-made sandwiches, the British eat less bread than any other European nation. In western Germany, where bread is double the price in Britain, consumption is twice as high and has grown by a sixth in the past 15 years. UK consumption has fallen by about as much in the same period.

Many factors have contributed to bread's down-market image in the UK – among them the disastrous "styrofoam" loaf produced after EC membership forced millers to switch from North American to lower-protein European wheat in the 1970s. However, producers have not made much effort to change consumers' perceptions for the better.

Indeed, marketing has long played poor relation to the relentless drive to produce ever larger volumes of bread at lower cost. "The people running the bakeries now aren't bakers, they're engineers. They're less interested in how bread tastes than in making it consistently."

In most other areas of food manufacturing, it is accepted wisdom that high margins and clout with retailers depend on strong brands. Many leading manufacturers routinely spend 10 per cent or more of sales on advertising and brand promotion. By contrast, the entire UK bread industry spent a paltry £7.9m on advertising last year, according to Media Register-Meal, which measures advertising spending.

Mr Weston of ABF argues that heavy brand support is hard to justify because bread varieties are difficult to differentiate and innovations easily copied. However, this view is challenged by the experience of Warburton's, a Bolton-based regional baker which is the market leader in Lancashire. The company has established a strong brand identity, based on a reputation for outstanding product quality backed by substantial television advertising.

Unlike its main competitors, Warburton's refuses to make own-label products for supermarkets or to offer discounts – even though its loaves sell for twice as much as their cheapest rivals. "I don't want our bread sold cheaply," says Mr Jonathan Warburton, marketing director. "There's no point in offering what the rest of the industry offers already."

Other bakers, while admiring Warburton's achievements, argue that it is a special case. The company serves a limited region, its local roots run deep, and its advertising makes much of the skills developed over five generations of family ownership.

Still, there are signs that the industry leaders are taking marketing more seriously. Mr Handley of RHM is a marketing man by background while Mr Henry Jackson, head of ABF's Allied Bakeries until his sudden death in January, was recruited from Mars, the confectionery maker renowned for its marketing expertise.

ABF is sponsoring a "generic" advertising campaign for bread, while RHM has stepped up its advertising expenditure recently. However, rebuilding brands is expensive, while resources are limited by poor profits and – in RHM's case – by concern about falling prey to a hostile takeover.

In any case, the big bakers' immediate preoccupation is with restoring price disciplines. The recent collapse of one of the small independent millers suggests a capacity shake-out may be starting. But rehabilitating bread's image – let alone persuading consumers that it is a quality product which justifies premium prices – is bound to take longer.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Commission that is hard to justify

From Mr Paul Meredith.

Sir, Bruce Johnsen suggests (Personal View, March 24) that paying soft commissions through an execution only broker is no worse than paying commission to an integrated research broker and that commission is good because it subsidises research – otherwise fund managers would have "little incentive to do well-researched trades".

Fund managers, however, know that most commission is optional and, in a highly competitive business with few barriers to entry, we have every incentive to orientate our own research to long-term evaluation rather than to stimulate trading. Soft commission is particularly hard to justify because it is so susceptible to abuse – after all, resulting costs passed on to client funds feed directly to the fund managers' profit line.

Regulators in the UK and US are rightly worried about the rapid development of this £1bn money-go-round which leaves investors invariably bemused and almost invariably poorer.

Paul Meredith,
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Share ownership has varying incentives

From Mr Greg Clark.

Sir, Your survey on employee ownership ("Poised at the crossroads", March 24) remarked on growth in employee share-ownership programmes (Esop) during the 1980s.

Research by the London School of Economics Business Performance Group shows that the incentive effect of employee ownership varies considerably. While individual employees are typically motivated by incentive pay, introducing incentives to those with more collective values may be totally ineffective in promoting higher levels of effort.

In this case resources would be better applied elsewhere. The blanket introduction of an Esop is no substitute for sensitive design in pay systems.

Greg Clark,
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A different revolution

From Mr Nigel Willmott.

Sir, The current debate in the Conservative party about the legacy of Thatcherism – reflected in the columns of Joe Rogaly and Samuel Brittan and in the letter from Amstrad's Alan Sugar (March 19) – misses the point that fundamental economic and social change has come about because of the technological revolution we have experienced over the past 15 years, not the Thatcherite revolution, which is a pale imitation of it.

The provision of wider choice has been made possible by the redistribution of both control and information systems provided by microtechnology away from central command points to city dealing rooms, car production plants, supermarket checkouts and building society offices, or, indeed, to doctors' surgeries, hospitals and schools.

Thatcherism aided this process by destroying the old institutional framework which would have put a brake on the implementation of the new microcomputer technology – neatly encapsulated by the Wapping dispute. But as soon as Thatcherism became in itself a brake on the process, through its inability to organise investment in human capital and infrastructure, it too had to go.

The inability of free market institutions to deliver this essential prerequisite of the information age has now been recognised by all parties, although as yet only fitfully and partially by the new model Conservatism.

John Smith's alternative budget – which so enraged Samuel Brittan – has neatly teased out the constricting self-interest of much of the City and business community. The majority no longer believes that what is good for Stanley Kalms, and his "promise" of an investment freeze by Dixons if Labour is elected – or Alan Sugar, bemoaning his miserly £170,000 salary – is necessarily good for the country as a whole.

Amstrad may have done well by packaging and marketing essentially foreign technology and Dixons by selling it, but in the meanwhile genuinely innovative companies such as ICL, Apricot, Acorn and Inmos have all had to find foreign owners to survive.

Nigel Willmott,
38 Denton Road,
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Gold still has glitter

From Messrs David Gulley and Roger Murphy.

Sir, While we agree with Kenneth Gooding that it has been a chilly spring indeed for gold ("All that is gold no longer glisters", March 26), we would like to set against it the following information, not available to the market when Mr Gooding was researching his article.

On the basis of those markets for which we have good data, 1991 global consumer demand for gold appears to have gone from strength to strength. In fact, preliminary results indicate that jewellery demand may have outstripped new mine production for the third year in a row.

How can this be true with the stories about weak jewellery demand currently circulating in the market? Most gold traders look at the demand for unwrought gold in jewellery fabrication, which is closer to their own business than final consumer demand. But, obviously, consumer demand will dictate fabrication demand in the final analysis.

While it is too early for us to assess the first quarter's state of fabrication off-take, seasonally adjusted, pessimism should be tempered with the understanding that in recent record-breaking years, first quarter fabrication looked anaemic at the time.

Second, we continue to think of India as a source of strength and optimism for the future. When India swapped smuggled gold for foreign exchange last year, the resulting hue and cry led the government to redeem these swaps and even to increase its official gold reserves.

The clear intent of the recent India-International Monetary Fund economic plan is to work with the Indian appetite for gold, rather than to try to fight it.

While the gold price does tend to revert quite strongly to its underlying trend, in most recent years it has routinely outperformed equities in at least one quarter or longer.

David Gulley,
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ICI breaks waste ranks

From Mr Dave Coleman.

Sir, I am sure that ICI will be delighted to learn that its hazardous waste generation has fallen to 475.9 tonnes worldwide in 1991 ("ICI emissions were cut by 3.7% last year", March 18). Unfortunately, your report is a factor of 1,000 too small. ICI has still achieved a 30 per cent reduction in hazardous waste generation, but from 677,900 to 475,900 tonnes. Similarly, off-site disposal of hazardous waste to landfill dropped from 160,100 tonnes to 151,300 tonnes, and so on.

It is with some interest that I wait to see how other UK chemical companies and manufacturers respond to this "breaking of ranks" by ICI. The view that such information is either impossible to collate, or is commercially sensitive, has effectively been put to rest by the efforts of ICI group environmental adviser, John Coleman, and his team.

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OBSERVER

Champagne stakes

■ Is France's Veuve Clicquot champagne company better at picking Britain's business winners than the Guardian newspaper? Undoubtedly, to judge by the track records of the winners of Veuve Clicquot's business woman of the year, and the Guardian young business man awards.

Admittedly, one or two of Veuve Clicquot's selections, such as Sock Shop's Sophie Mirman, have hit a rough patch. But the record does not match the Guardian's uncanny ability to tip future losers, such as John Gunn, John Ashcroft, James Gulliver, George Davies et al. Sensibly, the newspaper has ditched the award.

Although Body Shop's Anita Roddick could still spoil the Veuve Clicquot score-sheet, and Ann Burdus has not had a happy time as marketing director of Olympia and York's Canary Wharf, most of the winners over the last couple of decades have held onto their reputations. Mair Barnes, for example, has been doing an excellent job at Woolworths and Nestlés' Gill Lewis has just been given a seat on the Pearson board.

On Thursday the Veuve Clicquot judges try once again. While the Random Century publishers' boss Gail Rebuck would seem the front-runner, there is more to business than making loads of money. So Observer's preference is for Phyllis Cunningham, chief executive of leading cancer hospital, the Royal Marsden.

Moonstruck

■ It has been obvious for some time that the Earth Summit in Rio this June risked sliding into chaos. That risk has now increased with the belated discovery – over two years after preparations began – that the proposed dates coincide with an important Islamic lunar festival.

As a result, 20 Islamic countries have asked the UN organisers to postpone the event by four days so their government leaders can carry out their ritual observance of the new moon.

This is no mean request since more than 160 heads of state or government have been invited, all of whom will have to rejig their diaries if the UN agrees to shift the date.

As a compromise, the UN is willing to consider a delay of two days. But the EC countries - which have made no secret of their annoyance at this oversight - are balking.

The one person who is unaffected is President George Bush who has yet to say whether he will be coming to Rio at all.

Planning ahead

■ Has somebody set up an April fool's joke early?

Among the numerous planning applications due to go before the Lake District National Park Authority on April 1 is one for a change of use of a redundant cattle-box to a granny-annexe, next door to the Sellafield nuclear reprocessing plant.

High class

■ In essence, Observer has only one thing to say to readers who tackled last Monday's numeracy-style questions. It is: "Go to the top of the class!"

After all, any candidate who got 82.8 per cent of the total marks available in a test would be considered to have done very well. But that was merely the *average* score of the 151 of you who entered the quiz.

"At least we've got an hour less of the election"

The questions, with the answers in italics, were:
1 What is the conventional name for the result of dividing the circumference of a circle by its diameter? *Pi.*
2 What is 12½ per cent of 60 per cent? *7½ per cent.*
3 If 93 folk enter a knock-out singles tournament at tennis, how many matches are needed before one player emerges as overall winner? *92.*
4 In the A1, A2, A3... series of paper-sizes, what mathematical relationship does the length of each sheet's longer side bear to the length of its shorter side? *When the shorter side is designated as 1, the longer is the square root of 2.*
5 Name the ancient philosopher specifically associated with the theorem that sheds light on question 4. *Pythagoras.*
6 What – apart from the fact that no other number is the same as it – is unique about the number 1,729? *It is the smallest number that can be formed from the sum of two cubes in two different ways ($1^3 \times 12^3$ = 1,729; $10^3 \times 9^3$ = 1,729).*
7 Name the unusual mathematician who saw the answer to 6 instantly. *Ramanujan.*

As Observer reported last Thursday, 62 of you produced perfect answers within the time limit, so necessitating a tie-breaker to find the winner of the bottle of malt whisky.

As threatened, it is a stinker calling for knowledge both of numerate and of literary culture. It has two parts.

The focus is the ancient problem: Which number when added to one seventh of itself equals 19? It is easily solved by algebra which allows a non-numerical "place-holder", such as x, to stand for the initially unknown number constituting the answer – for example, $x + x/_7 = 19$.

But algebra is a relatively recent method which was scarcely known in England, at least, until the mid-16th century. Before then, there was no facility for using unknown place-holders, and such problems had to be solved by calculating solely with whole numbers and fractions (as distinct from decimals), the preferred method being called "The way of falsehood." Now to the question:

A Show how the problem could be worked out by such a pre-algebraic method.

B Which 16th-17th century English poet hinted that he understood the then new algebra, and in which poem?

All entries welcome, but only the previous 62 timely and all-correct entrants will be in line for the prize. Answers by fax to Observer on 071-873 3926 or 071-873 3196 by 6pm London time tomorrow, or by mail postmarked the same day.

Self-drive

■ Beginning of memo sent by senior civil servant to staff on his return from a lengthy illness:

"Now I am back in harness I shall lose no time in taking up the reins again."

FINANCIAL TIMES
Monday March 30 1992

EC urged to provide cash boost for European aircraft research

By Andrew Hill in Brussels

THE EUROPEAN Community should inject Ecu700m ($868m) of research funds into the European aircraft industry, and help EC aerospace companies protect themselves from exchange rate fluctuations, according to a controversial report being prepared by the Commission's industry department.

The draft paper on the industry, which comes at a sensitive point in EC-US talks on aircraft subsidies, has already run into internal opposition from Sir Leon Brittan, the EC competition commissioner.

The latest draft will be discussed with aerospace experts from EC member states tomorrow. Mr Martin Bangemann, the industry commissioner, was hoping to win his colleagues' approval for the paper next week in Strasbourg, and publish it on April 8 with a similar report on the EC automotive industry.

But competition officials in Brussels are already pressing for substantial changes to both papers and even senior industry officials admit that alterations may be necessary.

For example, the explicit reference to the need for Ecu700m of aerospace research funding between 1994 and 1998 is likely to be withdrawn, because the Commission has yet to decide how to allocate research funds for those years.

The paper examines how to preserve the European aircraft industry's industrial and technological competitiveness, faced with a weak world economy and waning defence budgets. It suggests action in a number of areas, including harmonisation of standards, improved vocational training and the establishment of a coherent European air traffic control system.

But the draft is likely to revive the argument about mergers in the sector, which reached its peak last year when the Commission voted to follow Sir Leon's recommendation and block the Franco-Italian bid for De Havilland, the Canadian aircraft maker. Mr Bangemann opposed the decision and competition officials believe the draft paper is too heavily weighted towards his interpretation of the EC's merger rules.

It also tackles sensitive trade issues, such as how to reduce the European aircraft sector's vulnerability to dollar exchange movements.

The document says that a working group should be set up to examine the feasibility of an "exchange risk insurance system". The system, it adds, would have to be self-financed and should conform with Gatt subsidy rules.

The EC aircraft industry is itself unhappy about some aspects of the Commission paper. European aircraft makers are concerned that it gives ground to the US at a crucial point in subsidy negotiations, by suggesting that it should be possible to reduce the EC's direct state aids for financing new EC aircraft programmes.

EC and US negotiators met in Washington last week for final talks about aircraft subsidies. If they do not reach agreement by tomorrow, the issue may have to be resolved through Gatt disputes procedures.

Race for second place

By Anthony Harris

ONE OF the fashionable City sayings of the moment is that whoever wins this election will be in power for years to come. The theory is simple: the recovery may be a bit late, but it is bound to come soon enough for the incoming government to steal all the credit.

This is not quite straightforward, because the same people are likely to say that if Labour wins, there will be such a crisis of confidence in the City that the recovery may not happen after all. However, the saving clause sounds like rightwing wishful thinking. Portfolio managers know that Labour governments have usually been pretty good for markets after an initial hiccup, and most will regard any early setback as a buying opportunity. Whatever they say, they believe in the coming recovery.

This suggests a touching faith that the market's in-house forecasters, of whom about half projected a recovery in 1991, were simply a bit premature. The underlying model, they seem to be implying, is sound. But is it? The fact that no City guru went even half way to foreseeing the fall we actually experienced suggests a more radical mistake. This is underlined by what looks at first sight like a triumph for the City: poor as the City's desktop efforts were, the professionals with large economics staffs and big models performed even worse.

Only one academic team (at Oxford) so much as got the sign right; one of the worst, suggestively, was the London Business School, which produced the whole Treasury top economics team. The really big battalions fell on their faces in a row. In rising order of disgrace, the Treasury, the EC and OECD, the National Institute and the IMF all got it wildly wrong. All these professionals are very good at modelling – the art of getting a computer to find a suitable bit of history to repeat. The commonsense conclusion from their errors is that history – or at least recent history – is not repeating itself.

Half of the problem is that private debt has reached levels in relation to income not seen for some 60 years. The professionals know this, and are busily trying to model debt deflation. But the other half concerns the relation of debt not to income, but to asset values; and we still don't know the half of it. Last week's announcements from Olympia & York and Heron offer a grim reminder of how debt crises work: the really bad news may not appear until you thought it was all over.

There are two reasons for this. First, both banks and property companies feel compelled to conceal some ugly truths as long as they can, because to do otherwise would mean admitting heavy and sometimes insupportable losses. If you are a developer, an empty building can still be valued on the rent you are asking, but a rent cut to win a tenant reveals the truth. If you are a banker, lending good money after bad can put off the day of provisioning. Confession in these circumstances can be a sign of strength.

A self-starting recovery begins to look like Catch 22. The CBI says recovery depends on consumer spending; but consumer surveys show that willingness to spend depends on recovery

But it can also be a sign of weakness. Canary Wharf is a sad example. The potential losses on this and other London property developments have inspired the banks to prodigies of economy, closing branches and reducing staff. But each economy by the banks has further weakened the City property market, and so increased the potential losses. Now the banks, trying to push up their margins, have imposed charges that discourage borrowing; and so troubles which may seem restricted to one asset market can infect the whole economy.

This kind of vicious spiral repeats itself again and again in a shrinking economy. Repossessions delay a housing recovery, bankrupt sales undermine retail markets, rising insurance premiums mop up part of rising incomes, falling government revenues push up long-term interest rates.

At its worst, as 60 years ago, this process can lead to a self-feeding cycle of economic and market weakness, the kind of thing which wiped 90 per cent off Wall Street equity values in a collapse punctuated by a whole series of "recoveries".

In its milder form – and although I may sound like a pessimist, I do not believe we face anything remotely like the 1930s – it means simply that the disappointments we suffered in 1991 do not make recovery more probable, as the govern-for-ever school seems to believe. Delay makes recovery less likely, and likely to be weaker than previously expected.

As for self-starting recovery, that begins to look like Catch 22. The CBI says recovery depends on consumer spending; but consumer surveys show that willingness to spend depends on recovery. Repeat, altering where necessary, for investment. As for an export-led recovery, forget it unless you also expect devaluation (now tipped in the City as possible from the Tories, but unlikely from Labour).

You may regard all this as typical Harris gloom, and ignore it; but there are signs that the big modellers are belatedly beginning to think gloomily, too. As recently as Budget day, the chancellor was suspected of having cunningly inflated his borrowing forecast, to leave the less room for Labour's promises. Now, rumour has it, Labour has learned that the chancellor understated borrowing to leave room for Tory promises; and that the estimate is still rising, as the end of the rainbow recedes.

Indeed, Labour's scouts may well have got the message which the late Lord Kaldor brought back from some Treasury scouting on the eve of the 1974 election. As he emerged from a grim session with the forecasters he met Stuart Holland, an old pupil and then a rising hope of the radical left. "Stuart," he said, "this is an election we have to lose!"

That was one of Kaldor's sounder pronouncements; and judging from the way both the main parties are mismanaging their election campaigns, they may have taken it to heart. Or one of them, at any rate. Labour could buy itself some political time by blaming the whole mess on the Conservatives – but seems to have little idea how to use that time. The Conservatives seem equally bereft of ideas and excuses. Suggestive, that.

Spanish strike looms over convergence plans

By Peter Bruce in Madrid

THE Spanish government and the country's main trades unions are gearing up for what may become their most disruptive dispute since the Socialists came to power in 1982.

The main socialist and communist unions are now considering calling a general strike in protest at a dramatic proposed reform of the labour market reform. The reform is intended to be the linchpin of the government's plans to converge with the leading European Community economies and so enter into monetary union by 1997.

The convergence plan, which is aimed at taking Spain to within the economic convergence limits decided at the EC summit in Maastricht last December, was agreed by the cabinet on Friday.

Designed by Mr Carlos Solchaga, the finance minister, the plan recognises that Spain has done little to combat its growing public deficits and for the past five years has lost control of the economy largely to monetary policy.

Nevertheless, Mr Solchaga's plan calls for the public sector deficit to fall from around 4.4 per cent at present to 1 per cent by the end of 1996, a task feasible only if large cuts are made in public spending.

These, it is clear, will be made in the labour market. Under the plan the government intends to cut subsidies to employers for creating jobs and extend from six months to a year the time for which temporary job contracts remain valid. Normally a worker has the right to a permanent job after six months on a temporary contract.

Carlos Solchaga – deficit cut

The measures also mean it will take a year's work (instead of six months) for a worker to become eligible for full unemployment benefit.

The government also plans to "encourage" unemployed workers to look more actively for jobs, and will penalise people not seeking jobs or failing to accept offers away from home.

Although the plan is to be discussed with the unions, Mr Solchaga said on Friday that their support "is not a key to its success. It is not a wage negotiation."

Mr Solchaga also said he wanted to stop runaway health service spending, and the government may introduce measures to devolve managerial decision-making to hospitals or clinics, and to make them responsible for their own financial performance. While this would not be a Thatcherite-style privatisation, many regional health ministers have already begun to press Madrid not to cut health spending.

Union leaders warned at the weekend that the convergence plan represented a bigger threat to their members than the job-creation programmes which triggered a successful one-day general strike on December 14 1988.

The communist Comisiones Obreras trade union said the finance minister's estimate that the convergence plan could create 1m jobs in four years was "a sick joke".

Unemployment in Spain is running at around 16 per cent, and although Mr Solchaga has tried before to push tough spending cuts through the party machine, he has always failed.

The labour market reforms will be seen by the unions and the political left in Spain as a serious threat, but this time he appears to have won the solid support of Mr Felipe González, the prime minister, who announced the outlines of the plan in his state of the nation address to parliament last week.

A strike now would be a serious threat to Mr González, disrupting Spain's 1992 celebrations and establishing a climate of confrontation ahead of a general election which is expected to take place about a year from now.

The prime minister appears to have been persuaded, however, that Spain would be extremely uncomfortable to govern unless it took measures now to guarantee its inclusion in the first group of EC member states to unite their currencies. This will happen in 1997 or 1999.

Tories warn Labour pay pledge means higher taxes

By Ivo Dawnay and Alison Smith in London

BRITAIN'S ruling Conservative party yesterday claimed a pledge by Mr Neil Kinnock, leader of the Labour opposition, that a government formed by his party would not allow the pay of public sector workers to fall further behind those in the private sector would lead to new tax rises.

The accusation came as Conservative strategists confirmed a switch in the party's tactics in the run-up to the general election on April 9.

Party officials now intend to meet criticisms of "negative campaigning" from its own supporters by promoting the advantages of a low tax economy.

They will combine this with an analysis of the impact of Labour's plans on the incomes of skilled and semi-skilled workers.

Yesterday Mr John Smith, Labour finance spokesman, revived his party's own tax warnings by repeating charges that the Conservatives will raise or extend the range of value added tax.

Earlier, Mr Kinnock had remarked in a television interview that Labour would halt the deterioration in public sector pay rates in relation to private sector increases.

Under pressure from the interviewer, he insisted: "I would like to say we are going to close the gap. We are too prudent to do so... we are going to stop the gap widening."

But his comments provoked questions later as to how Labour will meet this commitment without raising public expenditure.

Mr Smith added the rider that public sector pay rates would be linked to what the government could afford.

"We will set a guideline for our negotiations which is that we will halt the deterioration in public sector pay," he said. "but we will also say that that must be within the budget limits."

Officials added that the dangers of a repeat of a wages spiral that led to the "winter of discontent" of public sector strikes in 1979 were ruled out by downward pressure on private sector pay from competitive constraints from abroad and Britain's membership of the exchange rate mechanism.

The election's return to economic issues came as figures on business failures in Britain in the first quarter of this year showed weekly rates at 1,240 against 800 in the same period last year.

Party strategists were also studying weekend opinion polls showing Labour retaining a lead of between 1 and 4 points in four polls and another giving the Tories a 2 point advantage.

The best news was for the minority Liberal Democrats who saw their poll ratings climb by betweeen 3 and 4 points in all but one of the polls. This gain was widely held to have come from voters' revulsion at the squabbling betweeen the two main parties.

Election news, Pages 6-8
Bond market jitters, Page 24

European bank site

Continued from Page 1

nate in view of the wage negotiations.

On the public sector pay negotiations, he said: "A high settlement would be fully counterproductive". The unions have claimed 9.5 per cent and been offered 3.5 per cent; talks have broken down.

This year's wage trends would have a strong influence on the economy, Mr Issing said. The gradual economic decline after the strong first quarter of 1991 should bottom out later this year with a renewed upturn in 1993, helped by recovery in the US. "The real economic basis for wage rises has become decisively smaller". In 1991, pay increases averaged 7 per cent.

He said it was too early to tell when December's policy moves, bringing the Lombard rate up to 9.75 per cent and the discount rate to 8 per cent, would brake money supply expansion.

M3 grew at an annual rate of 8.5 per cent in February against the target of between 3.5 and 5.5 per cent. If wages rose too much, the resulting economic weakness could dampen money supply growth. The scope for easing rates would thus depend on how the economy developed.

French reshuffle near

Continued from Page 1

elected Bourgogne regional council in the ballot for council president.

Mr Soisson, whose surprise election was secured by only one vote, claimed that all his votes in the secret ballot came from respectable political parties. But the bare figures suggest that he may indeed have received help from the National Front, and the National Front leadership has been careful to sustain the uncertainty.

Mrs Cresson gave Mr Soisson the option of choosing between his seat in government and his presidency of the regional council. He chose Bourgogne.

The incident is deeply damaging to the Socialists, and a bonus in the campaign of the National Front to destabilise the parties of government. Throughout the regional election campaign, the Socialists repeatedly accused the conservative parties of preparing to do shady deals with the National Front.

In the event, the conservatives have so far stood by their vow not to form any alliances with the NF; it is the Socialists who are contaminated, rightly or wrongly, with the smear of association with the Front.

The Socialists' isolation has been underlined since their disaster in the regional elections by the increasingly hostile attitude of the Communist party, which now describes itself openly as an opposition party of the left, and by the free-wheeling attitude of the ecologist movements, which took 14 per cent of the seats in the new regional councils.

On Friday the Communists refused to fall in behind the Socialists in alliance against the conservatives in any of the 22 new regional councils which met to elect their presidents.

Their most immediate threat to the Socialists lies in the northern region of Nord-Pas-de-Calais, where the Communist defection could mean that the Socialists lose control of the region, one of only two where they are in charge.

Fearful of such a defeat, and in the hope of negotiating a last-minute deal with the Communists, the Socialists manoeuvred to have the vote postponed by walking out of the council and thus preventing a quorum.

That vote will now take place today, as will the parallel vote on the presidency in Haute-Normandie, where Mr Laurent Fabius, leader of the Socialist party, is still feverishly manoeuvring to put together a governing alliance.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	12	54	Boulogne	C	9	48	Frankfurt	F	5	41	Madrid	S	13	55	Nicosia	S	19	66
Algiers	F	18	64	Brussels	F	7	45	Geneva	S	9	48	Majorca	F	15	59	Oporto	S	15	55
Amsterdam	R	5	41	Budapest	F	6	43	Gibraltar	F	16	61	Malaga	F	18	64	Oslo	S	5	[illegible]
Athens	F	15	59	Buenos Aires	C	22	72	Glasgow	R	11	52	Malta	R	11	52	Prague	C	2	36
Bahrain	S	22	72	Cairo	S	26	82	Helsinki	C	-1	30	Manila	F	35	95	Reykjavik	F	5	41
Bangkok	F	35	95	Cape Town	S	21	70	Hong Kong	S	17	63	Melbourne	C	15	64	Rhodes	F	17	63
Barcelona	S	12	54	Caracas	F	29	84	Innsbruck	Sn	3	37	Mexico City	C	25	77	Rio de Janeiro	F	38	100
Beijing	C	20	68	Casablanca	C	16	61	Inverness	F	8	46	Miami	F	18	64	Rome	S	14	57
Beirut	S	17	63	Chicago	F	3	37	Islamabad	F	22	72	Milan	S	13	55	Salzburg	Sn	0	[illegible]
Belfast	F	7	45	Cologne	S	5	41	Istanbul	R	11	52	Montreal	S	-2	29	S'Francisco	F	10	50
Belgrade	F	6	43	Copenhagen	F	5	41	Jakarta				Moscow	S	6	43	Seoul	S	17	63
Berlin	R	4	39	Corfu	F	17	63	Johannesburg	F	25	77	Munich	C	2	36	Singapore	F	31	88
Biarritz	S	12	54	Dallas	F	16	61	Lima				Nairobi	F	30	86	Stockholm	C	7	45
Bombay	S	33	91	Dublin	R	12	54	Lisbon	F	15	59	Naples	F	15	59	Strasbourg	C	21	70
Bordeaux	C	11	52	Dubrovnik	F	7	45	London	F	10	50	Nassau				Sydney	C	17	63
				Edinburgh	C	7	45	Los Angeles	C	16	61	New Delhi	F	27	81	Tangier	F	22	72
				Faro	C	16	61	Luxembourg	C	4	39	New York	S	3	37	Tel Aviv			
				Florence	S	13	55	Malta	C	17	63	Nice	S	18	59				

		°C	°F
Tenerife	C	17	63
Tokyo	R	11	52
Toronto	S	[illegible]	28
Tunis	C	13	55
Valencia	F	18	64
Venice	F	12	54
Vienna	S	4	39
Warsaw	C	6	41
Washington	S	3	37
Zurich	F	7	45

† Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

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INSIDE

Hardships at Heron likely to cause loss

In 1991 Heron International, Mr Gerald Ronson's property and finance group, had suffered the worst year of its history, and Mr Ronson had just completed a six-month term in Ford Open Prison for his part in the Guinness scandal. His wish for a better commercial year has not been granted — Heron is likely to declare a its first-ever pre-tax loss, which some estimates put as high as £100m ($174m). Page 20

Bright outlook for French bonds

The dire performance of the ruling socialists in last Sunday's French regional elections sent the country's bond markets spinning downwards only to waver for the rest of the week. But while the prime minister's future is still in the balance, the outlook for French bonds looks much brighter. Page 24

Ghana government offers gold

Investors may soon be able to buy into Ashanti Goldfields of Ghana, which operates one of the world's biggest and richest gold mines. But Lonrho, the UK-based conglomerate which owns 45 per cent of Ashanti, will not provide any of the shares. "The initiative is coming from the government, not Lonrho," said Mr Sam Jonah, managing director of the gold mining company. Page 20

Nissan names its head

Mr Yoshifume Tsuji has been named as president-designate of Nissan Motor, Japan's second-largest carmaker. Mr Tsuji will take over management of the company in June. Page 22

INI plunges to Pta61bn loss

Instituto Nacional de Industria (INI), the Spanish state industrial holding, has reported Pta61.26bn ($591m) pre-tax losses for 1991, compared with Pta9.24bn a year earlier. It blamed dismal performances from its steel, airline and defence companies. Page 22

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Changes at the top of German carmaker may herald tough measures for a leaner look, reports **Andrew Fisher**

Volkswagen gears up for cost-cutting

Ferdinand Piëch

Carl Hahn

Daniel Goeudevert

Volkswagen is a proud company. Its cars, including the popular Golf, are among the best mass-produced models in the world; its record of innovation is impressive; and it has a high level of environmental consciousness.

The trouble is that compared with other carmakers, its costs are also among the highest. This is certainly no cause for pride and clearly influenced those deciding who should take over the driving seat of the German group. Thus, Mr Ferdinand Piëch, a tough and somewhat caustic car engineer is set to take over as the chief executive in nine months.

It has been rumoured for some time that Mr Piëch would be favoured over his rival, Mr Daniel Goeudevert, a Frenchman who joined VW two years ago from the German subsidiary of Ford of the US. Mr Goeudevert, a former Sorbonne literature professor with unconventional views about the industry, certainly looked like the heir apparent until Mr Piëch's strong engineering credentials shot him ahead.

Now that Mr Piëch, head of the Audi subsidiary, has virtually won the race — the decision in his favour by a special committee of the supervisory board still has to be rubber-stamped by the full board on April 10 — the question is what he will do after Mr Carl Hahn, 65, steps down at the end of this year.

There is plenty that needs to be done. According to Mr Stephen Reitman, motors analyst at stockbrokers UBS Phillips & Drew: "VW has made little progress in boosting output per employee during a period when substantial advances have been made by its competitors." VW, he adds, "remains the high cost, high charging producer".

The original plan was that Mr Hahn, one of the best-known figures in the German motor industry, should stay on for two years after his normal retirement date. This would have taken him to the end of 1993.

But those responsible for appointing the top management realised that competition was becoming fiercer and that drastic steps were needed. "There is a growing sense of crisis," says Mr Reitman. "The numbers are not adding up any more." He estimates that VW's earnings per share slid from DM36 to DM27 last year, though he expects a slight improvement in 1992. In 1989, the figure was DM59.

Against this background, it was not surprising that the news of Mr Piëch's takeover as head of the group was coupled with an announcement that 12,500 jobs would be lost from VW's domestic workforce of 130,000 by 1996. VW insisted that the reduction of 2,500 jobs a year would occur through natural wastage. It denied a report in Manager Magazin, a German business monthly, that cuts of 25,000 were planned at west German plants.

VW is not the only German motor company plagued by high costs and a labour force whose size is out of line with slimmer foreign competition. Mercedes-Benz is contemplating cuts of around 20,000 people in the next few years while BMW intends to shed 3,000 people in 1992.

The German motor industry association (VDA) has also warned that job reductions are inevitable. "They will be gradual, but over time they will be substantial," says Mr Achim Diekmann, managing director of the VDA. In the last 10 years, other EC members have reduced jobs in the industry by 410,000, while the German industry has had an increase of 79,000.

Components makers have already started cutting employment and shifting more production abroad in response to increasing competition and the pressing demands of carmakers for more sophisticated parts and systems at low prices.

> **"There is a growing sense of crisis . . . . The numbers are not adding up any more."**

In Mr Diekmann's view, the traditional car plants in western Europe, not just Germany, are under threat from those in newer locations such as Spain and Portugal; the Japanese transplants in the UK also pose a tough challenge. VW is trying to combat this by building a new plant in eastern Germany where it will apply "lean production" methods, buying into Skoda, the Czechoslovakian car producer, and teaming up with Ford in Portugal.

It has long been involved in Spain, where it owns the successful Seat carmaker. VW is also building up its activities in Mexico and China. Apart from developing new markets, an important reason for this expansion is to develop output in low cost countries. Altogether, group capital investment in the next five years will total DM51bn ($31bn).

Inevitably, VW's vigorous foreign expansion has focused a spotlight on cost levels in its German plants, especially at its Wolfsburg headquarters where it turns out 4,000 cars daily. Mr Reitman refers to VW's "ruinously expensive domestic manufacturing handicap", noting that VW and other European producers still have to face the full blast of Japanese competition in the EC.

Mr Goeudevert, the director responsible for the VW marque — accounting for some 80 per cent of group business — agrees that action is necessary, but not just at VW. "Certainly, VW has a cost problem but it is not a typical VW problem."

The group has implemented organisational changes to improve financial transparency and enable it to monitor costs more effectively.

Yesterday, in an apparent extension of this policy, VW said it was considering the creation of a separate holding company to oversee its separate VW, Audi, Seat and Skoda marques. It has also been striving to ensure that its component plants maintain their costs at competitive levels.

None of this is easy, as Mr Hahn well knows. "We have to keep the pressure on VW to maintain world standards and not fall asleep in a captive market, which is the most dangerous thing that can happen. Everybody — workers, shop stewards, and managers — know they are being measured by the best international standards."

It is these high standards that Mr Piëch will have to maintain. But in an increasingly ferocious and fast-moving industry, he will have to do it at cost levels which do not leave VW at a severe disadvantage to its competitors. VW needs to slim down to stay up with the leaders.

Nissan president named, Page 22

Greenpeace attacks Waste Management on eve of flotation

By Richard Gourlay in London

GREENPEACE, the environmental pressure group, is renewing its attack on the US methods of Waste Management (WMI), the world's largest waste disposer, which is raising £450m ($782m) for European expansion. But WMI has accused Greenpeace of "outrageous manipulation of information".

In today's statement, timed to influence the flotation of 20 per cent of WMI's international operations on April 7, Greenpeace is warning European investors to "consider the dangerous practices" of the US group.

The share sale, valuing WMI at more than £2bn, in one of the largest flotations in recent years, will be achieved through a placing in London and offers for sale elsewhere, including the US.

Earlier this year Waste Management and Wessex Water, its partner in a joint venture set up in the UK last year, refuted allegations in a Greenpeace report on WMI's operation in the US.

"Greenpeace's stated belief is that NO waste disposal is acceptable because the group maintains that waste simply should not be produced," said WMI.

Greenpeace has claimed that WMI paid $45m in US-related environmental penalties and settlements during the 1980s.

According to WMI, the $45m included capital costs of meeting ever-tightening environmental standards.

Waste Management said it had a "good relationship" with most environmental organisations, and consultants Arthur D Little had conducted an external audit which placed WMI "firmly among the leaders of industry as a whole with regard to corporate environmental management".

Last December Chicago-based WMI paid a $1.9m penalty after a consent decree — a form of out of court settlement — following what it called a difference in interpretation of the laws at its Sauget, Illinois, hazardous waste incineration plant.

The case revolved around alleged violations of the operating permits at the facility and carbon monoxide levels in its incinerator.

WMI said the CO levels had not constituted a threat to the environment.

In 1990, WMI paid a $3.75m penalty in connection with operating procedures at its Chicago hazardous waste incineration plant.

A man with 'petrol in his veins'

Mr Ferdinand Piëch is a man with "petrol in his veins", as Die Zeit, the weekly newspaper, put it. Eccentric and, by all accounts, prickly, he is a brilliant engineer who has steered VW's Audi subsidiary into a period of rising profits with robust, well-styled models at the upper end of the market.

At a time when the VW group is struggling to curb costs against ever tougher foreign competition, especially from Japan, the choice of Mr Piëch against the smoother, more communicative, higher profile Mr Daniel Goendevert, VW board member, indicates a willingness to tackle the unpleasant work with renewed energy.

This will include extensive job cuts, especially at VW's high-cost German plants. As both industry and labour representatives on the supervisory board backed Mr Piëch's appointment, recognition of the scale of VW's problems obviously goes deep.

In spite of his long career in the car industry, Mr Piëch, 54, a keen skier, jogger, and — of course — fast driver, does not fit the mould of the average German car manager. He is extremely rich — his fortune is based on his stake in Porsche, the luxury sports car company, and in the Salzburg-based Porsche family company, whose activities run from car importing to banking and hotels.

But he has proved that wealth can also go hand-in-hand with ambition and innovation. His grandfather was the legendary *Ferdinand Porsche*, who designed the VW Beetle car — the foundation of the company's post-war success — as well as the first sports car under the Porsche name.

Mr Piëch has carried on in this tradition. As an engineer, he was involved in the trailbreaking Audi Quattro sports car, the use of galvanised steel to prevent rust, and breakthroughs in aerodynamics. Yet this is not to say that Audi is one long success story. It has never really recovered in the US from the sales slump caused by allegations of unsafe acceleration, though it was cleared of these.

Nor is Audi likely to escape the impact of the cost and labour cuts threatening the German car industry. Even rivals such as Mercedes-Benz and BMW have made aggressive noises to their workforce. Mr Piëch certainly does not look like the man to shirk a disagreeable task, however uncomfortable it makes his managers and workers.

Putting public finances back in the public eye

Economics Notebook

By Peter Norman

UNTIL five-year-old Jennifer Bennett captured the headlines last week, the state of Britain's public finances was shaping up as a promising election issue.

Allegations of a £11bn ($19bn) "hole" in the government's finances and concern that the £28bn public sector borrowing requirement budgeted for 1992-93 might be an underestimate, fuelled fears of an emergency Budget this summer, irrespective of which party would be in power.

But should the state of the public finances give rise to such concern? It is, after all, still less than three weeks since the Treasury's 1992 Budget projections were published. Although the forecast deficits of £28bn for 1992-93 and £32bn for 1993-94 upset the City, the government's medium-term projections envisage a steady decline in the PSBR to a modest £6bn or just 0.75 per cent of gross domestic product in 1996-97.

However, in the hot-house atmosphere of the election campaign, the Treasury's PSBR projections already appear old hat.

One City commentator, Mr Bill Martin, chief UK economist of UBS Phillips & Drew, has gone so far as to suggest that "there is now more than a whiff of Budgetary crisis in the air".

He believes that next year's Budget will have to incorporate a £5bn net tax increase and that the PSBR — minus privatisation receipts — could be more than £50bn in 1993-94 and £70bn by 1996-97.

Mr Martin's is an extreme view. But other commentators have been scaling up their PSBR expectations. Mr Michael Saunders, Salomon Brothers' UK economist in London, forecasts a £30bn deficit in 1992-93 rising to £38bn in 1993-94 and 1994-95, before settling back to £28bn in 1996-97.

Mr Gavyn Davies, chief UK economist of Goldman Sachs in London, expects the UK's annual borrowing requirement will stay above 3 per cent of GDP, or about £20bn in today's money, throughout the life of the next government.

The PSBR is notoriously difficult to forecast. The Treasury's own "Red Book", published on Budget day, shows that the average error of official PSBR forecasts over the past 10 years has been £6.25bn, or 1 per cent of GDP.

Predicting the PSBR has become even more hazardous in recent years. The rapid shift from a £14.7bn budget surplus in 1988-89 to a deficit of similar size in the financial year just ending suggests that its "cyclicality" has grown, meaning that it is more prone to wild swings in line with changes in business conditions.

A big increase in self employment in the 1980s has made income tax receipts more volatile. The changes to corporation tax introduced in the mid-1980s by the then chancellor, Mr Nigel Lawson, have also affected the PSBR.

By moving from 100 per cent investment allowances in the first year to 25 per cent allowances on a declining balance depreciation system, Mr Lawson's reform ensured a big increase in corporation tax receipts in the years immediately after its introduction. But companies' allowances have gradually built up since the mid-1980s. diminishing receipts. This trend coincided with the transition from boom to recession that has depressed the profits on which corporation taxes are levied.

On the expenditure side, social security outlays have risen more than might be expected from the increase in unemployment during the recession. Government spending on disability and single parent benefits is rising faster than anticipated.

There is, however, no reason so far to believe that the tax base has shrunk because of the Lawson tax changes or the recession.

Therefore, the wide variation between the assessment of the Treasury and some private sector economists of future PSBR trends has to have another explanation.

To some extent, City economists are more sceptical about the ability of the next government to keep public spending under control. A more important consideration is the future path of economic growth.

The Treasury's Red Book expects real growth of 2 per cent in the UK in 1992-93 and growth at an annual rate of between 3.25 and 3.75 per cent in the four financial years that follow.

Although the growth rates for 1993-94 and after appear ambitious, the length and depth of the recession will mean that average annual growth over the business cycle will almost certainly be below trend.

Bill Martin, by contrast, believes that growth is likely to stay below 2 per cent a year in the medium term, because of insufficient productive capacity in the economy that will lead to a severe balance of payments constraint.

Mr Martin's analysis is at present a minority view. Certainly nothing since the Budget is likely to have persuaded the Treasury that its assessment of the economy is wrong.

It is highly unlikely that officials will be telling the next chancellor that he must have an emergency Budget this summer. But he will be urged to keep a close eye on evolving trends.

Away from the hustings, both the Tories and Labour are conscious that their room for manoeuvre in economic policy will be very limited. Mr Norman Lamont, the chancellor, has made clear that it could take longer than the next parliament to establish the new 20 pence tax rate as the basic rate of income tax.

"Mr John Smith, the shadow chancellor, insists that his priority is to get the economy on a sound footing. I'm very keen to see increased social expenditure, but it must be done at the level which we can sustain," he said last week.

Michael Saunders says the winner of the election will be "on a Budget tightrope" while Gavyn Davies believes that the next government has "about a year's grace" to bring borrowing under better control.

"It's not a crisis but it is also not comfortable," is how Mr Saunders sums up the present state of the public sector's finances.

This year's Autumn public expenditure round will therefore be very tough for whichever party holds office. Its outcome could determine whether the UK budgetary problems will turn into a crisis.

Security Pacific broker sold off

By Simon Holberton in Hong Kong and Bronwen Maddox in London

SECURITY Pacific, the troubled west coast US bank, last night completed its divestment of Hoare Govett, the stockbroker, with the sale of Hoare Govett Asia to the management.

At the same time, the management sold 49 per cent of the company to Guoco Group — the owner of Dao Heng Bank, a medium-sized Hong Kong bank.

The deal came a month after Security Pacific signed a letter of intent with ABN-Amro, the Netherlands bank, for the sale of Hoare Govett in the UK and Europe.

Mr Tony Lowrie, Hoare Govett Asia's chief operating officer, said yesterday that the deal would enable the broker to relaunch itself as a leading Asian house, and to strengthen its links with institutions and companies in the region.

The firm, which will be renamed HG Asia, has eight sales and research offices in Asia and sales operations in London, New York and Sydney.

No price was given for the transaction, which is conditional upon US regulatory agencies' approval and an audit.

However, Security Pacific is still likely to have lost more than its total investment of some £100m ($174m) in Hoare Govett. It bought control of the firm in December 1984 and took full ownership in 1987.

Heron's plight coming under close scrutiny

£100m loss estimated and restructuring on the cards: **Bronwen Maddox** reports

Not an easy year for the company or for me personally. Saying this Mr Gerald Ronson observed that "*it will be seen as a time* from which we at Heron all move forward together".

It is not hard to understand why, in March 1991, Mr Ronson said in the annual statement of his property and finance company Heron International that he wanted to put the past behind him.

Heron had suffered the worst year of its history, and Mr Ronson had just completed a six-month term in Ford Open Prison for his part in the Guinness scandal.

His wish for a better commercial year has not been granted. A year later, for the financial period ending tomorrow, Heron is likely to declare a its first-ever pre-tax loss, which some estimates put as high as around £100m. On Friday Mr Ronson will ask his banks to reschedule some £1.3bn of debt and bonds.

It would be easy to throw back at Mr Ronson his comments in last annual report: "We have always borne in mind the possibility of cyclical changes in the economy . . . we have always pursued . . . the prudent management of . . . borrowings".

But the restructuring has surprised many Heron observers who shared its chairman's view that it was cautiously managed. They point out that Mr Ronson is hardly known for flamboyance. Now 53, he took over the business that he and his father, from a Russian jewish immigrant family, had developed together. He retains a tough-talking style and London accent unsoftened by his financial success.

His small long-serving team of executives has been picked over the years from those who share his taste for working a six and a half day week.

He and Mr Alan Goldman, the 48-year old chartered accountant who is deputy chief executive, and has worked for Heron for 18 years, share a view of commercial life as an unceasing battle. Fond of pugnacious metaphors in their comments to the press – Mr Ronson described working in America as swimming in a shark pool – they have not given the impression that they were carried away with delusions of omnipotence.

Bankers have been comforted too in the past by Mr Ronson's own 15 per cent stake in the business. Of the balance 40 per cent is held by Ronson family trusts, and 45 per cent by the Ronson Foundations, which give to a wide range of charities.

How then did Heron miscalculate? The company has said that the biggest factor in the need for financial rescheduling was the damage done to its net worth by its ill-fated US expansion – a decision made 12 years ago.

In 1980 it paid $23.5m for Pima, a US savings and loan business, similar to a building society. Pima, based in Tucson, Arizona, had then around

Tony Andrews

Gerald Ronson: looking to a better future

$400m of loans on its books, but these rose to some $3.3bn by 1987. However, like several savings and loans associations in the South West of America, it fell into heavy losses after a collapse in the property market.

From mid 1987 Heron tried, unsuccessfully, to find a buyer. But Pima was eventually given away to the US's Office of Thrift Supervision, a regulatory authority, in March 1990, and Heron wrote off £193m in its accounts for that year.

But clearly that 12-year-old decision is not all the story behind the call for Friday's meeting. Writedowns on its development property portfolio have played a large part too. Heron will present its banks on Friday with what it coyly describes as a "different" assessment of its net assets from the £585.1m shown in last year's accounts – and banks are expected to scrutinise the assumptions for last year's valuations closely.

The financial assessment is being carried out by Price Waterhouse, the accountants, although the company said yesterday that Ernst & Young, the auditors, were being retained.

However some Heron watchers are also asking whether an underlying past weakness - which may have contributed to the US expansion – is Mr Ronson's dependence on a small number of long serving directors.

Heron has brought in several outsiders to manage divisions over the past decade. But Ronson-watchers point out that not all were long-lasting – in particular the appointment of Mr Hugh Jenkins in 1984, to oversee the US operations – in retrospect then at a critical point in their fortunes. Mr Jenkins stayed only for 18 months, before leaving to return to investment management in the UK. He is now chief executive of Prudential Portfolio managers.

However charges of introversion must be lessened by a series of senior appointments in the last few years; at present only six of the top 15 executive directors and managers have been at Heron more than 10 years.

The question of how the blame for financial rescheduling should be distributed between the recession and Heron's management will come under scrutiny at next Friday's meeting.

One banker last week described Heron as "intensely private in both senses - not just as Britain's second largest privately - owned company, but in Mr Ronson's character." The restructuring may cost him some of that privacy.

Investors may be given a chance to buy large Ashanti Gold stake

By Kenneth Gooding, Mining Correspondent

INVESTORS MAY soon be able to buy into Ashanti Goldfields Corporation of Ghana, which operates one of the world's biggest and richest gold mines. But Lonrho, the UK-based conglomerate which owns 45 per cent of Ashanti, will not provide any of the shares.

Lonrho, which is being pressed by the City to reduce its debt, had no intention of disposing of any of its Ashanti holding – "not in the medium, or the long-term" – insisted Mr Sam Jonah, managing director of the gold mining company, at a meeting of the Association of Mining Analysts in London.

Mr Paul Tarsh, the Lonrho director responsible for its mining operations, added: "Not only would we not sell, we would love to buy some more of Ashanti."

Mr Jonah revealed that the Ghana government, which owns the rest of Ashanti, was exploring the possibility of selling some or all of its stake in the company – perhaps by floating Ashanti on the local stock exchange to encourage this fledgling institution.

"The initiative is coming from the government, not Lonrho," Mr Jonah said.

Ashanti produced 569,452 troy ounces of gold in the year to September 31 at a cash cost of under $170 an ounce, placing it among the world's lowest-cost producers. Mr Jonah said that production would increase to 630,000 ounces this year, and added that the company had sold forward about 25 per cent of this at an average of $375 an ounce. Gold's price closed in London on Friday at $341.85.

Ashanti was about the start a $300m expansion project to boost output to 1m ounces of gold a year by 1995 at a cash cost of $168 an ounce. Half the finance would be generated internally and the rest would be borrowed. Ashanti's debt at present was only 20 per cent of equity and the company was talking to five banks willing to provide project finance.

Mr Jonah said Ashanti now had proven and probable gold reserves of 9.5m ounces. Total reserves, including those in the "possible" category, were 22.1m ounces of gold or 97m tonnes of ore with 7 grams of gold per tonne.

Ashanti's mining concession covered 125 square miles and "we believe we have touched only a small part of the resources. We will continue to explore aggressively because there is even greater long-term potential."

Lower second half hits Relyon

Profits of Relyon, the bedding and cabinet furniture manufacturer, fell from £3.24m to £2.67m pre-tax for 1991.

Turnover was static at £42.54m.

First half profitability had been maintained but recessionary influences together with exceptional costs of product development resulted in a sharp profits erosion in the second half.

A proposed final dividend of 3.15p makes a same-again 4.9p total. Earnings amounted to 8.37p (9.28p).

The Trident subsidiary continued to suffer from weak demand and was currently in talks that may lead to its management taking over the company for a nominal sum. That would result in a write-off of some £2m in the group's balance sheet.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Libyan Arab Investment Co (Libya)	Metropole Hotels (UK)	Hotels	£177.5m	Tiny bit controversial
Consortium (S Africa)	Frantschach (Austria)	Pulp & Paper	£110m	Stepping into Europe
Olivetti (Italy)/ Canon (Japan)	JV	Printers	£80m	Production and R&D venture
Archer Daniels Midland (US)	Unit of GrandMet (UK)	Agri-business	£39.5m	JV with Pillsbury
Laporte (UK)	Rockwood (US)	Pigments	£35m	Laporte's biggest buy
Stolt Tankers & Terminals (Norway)	Comex Services (France)	Offshore services	£30m	Cash + paper + debt deal
BTR (UK)	Westinghouse Brake & Signal (Australia)	Machine parts	£24.6m	Minority buy-out offer
Canada Life (UK)	Abbey Life (Ireland)	Insurance	£20.6m	Lloyds Abbey disposal
B+B Asia (Hong Kong)	Unit of Beazer (UK)	Construction	£15m	Beazer sells Australian operation
Freudenberg (Germany)	Lantor Group (UK)	Non-woven materials	n/a	Coats continues Tootal disposals

Source: FT Mergers + Acquisitions International

London share service classification changes

A SERIES of changes to the classifications of companies listed on the London Stock Exchange was made at the last quarterly meeting of the FT-Actuaries Indices Classification sub-committee.

As a result, the following stocks will be moved to new categories in the London Share Service with effect from April 1.

Alba to Electronics (FT-A sector 5) from Hotels & Leisure (FT-A sector 29); Baldwin to Hotels & Leisure (29) from Building Materials (2); Banks (Sidney C) to Food Manufacturing (25) from Miscellaneous (48); Barr & Wallace Arnold Trust to Hotels & Leisure (29) from Motors (9); Brasway to Engineering-General (7) from Metals and Metal Forming (8); Chemring to Miscellaneous (48) from Electricals (4); Clayhithe to Engineering-General (7) from Metals and Metal Forming (8); Elswick to Packaging, Paper & Printing (31) from Engineering-General (7); European Colour to Chemicals (43) from Building Materials (2); Expedier to Hotels & Leisure (29) from Miscellaneous (48); Farringford to Hotels & Leisure (29) from Food Manufacturing (25); GR Holdings to Other Financial (70) from Textiles (35); Hilclare to Electricals (4) from Business Services (41); IWP International to Health & Household (27) from Engineering-General (7); Maddox Group to Electricals (4) from Business Services (41); Melville Group to Contracting, Construction (3) from Conglomerates (43); Oceonics to Oil & Gas (51) from Electronics (5); Pacer Systems to Electronics (5) from Miscellaneous (48); Regina to Health & Household (27) from Food Manufacturing (25); Scantronic to Electronics (5) from Business Services (41); Sentry Farming to Food Manufacturing (25) from Miscellaneous (48); Stewart & Wight to Property (69) from Hotels & Leisure (29); Storm to Media (30) from Hotels & Leisure (29); Unigroup to Building Materials (2) from Textiles (35); Widney to Engineering-General (7) from Motors (9); Wood (SW) to Packaging, Paper & Printing (31) from Metals & Metal Forming (8).

Changes to the FT-Actuaries Indices will also be announced in the FT on April 1.

WINGS FOR THE WORLD

Travel and tourism is one of the world's biggest industries.

Air transport — a global industry — is an integral part of travel and tourism. More than one billion passengers flew on the world's airlines in 1991. Over two billion passengers are expected to travel by air in the year 2005.

As the number of travellers has increased so has the number of aircraft needed to fly them. Industry analysts estimate that over the next ten years, more than 6,000 new jet aircraft will be required to provide for growth and to replace retiring aircraft.

This is where GPA plays a central role.

GPA is the world's largest operating lessor of modern (post-1985) commercial aircraft. In 1991 we purchased close to 10% of the western world's production of new jet aircraft.

In the last six years we have spent over $10 billion buying aircraft for lease to airlines world-wide.

During 1991 we delivered 165 aircraft to airline customers. We took delivery of our 100th new aircraft from Boeing and we expanded our wide-body aircraft portfolio with new MD-11s and B767s. Despite the recession, in 1991 we maintained our unbroken record of profit growth.

Today we have over 400 aircraft under management in our fleet portfolio. We have a broad global base with more than 100 customers spread over 47 countries. GPA is a major participant in the global civil aviation industry.

GPA is set to play a key role in the growth of this global industry.

GPA Group plc

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Nissan Motor names new president

By Steven Butler in Tokyo

MR YOSHIFUME Tsuji has been named president-designate of Nissan Motor, Japan's second largest carmaker. He will take over management of the company in June from Mr Yutaka Kume, who will become Nissan non-executive chairman.

The transfer of leadership comes at a time when Nissan's sales and profits are under severe pressure worldwide. Mr Kume said he selected Mr Tsuji to succeed him in part because of his experience in production and purchasing, which would put him in position to pursue a needed cost-cutting programme.

Mr Tsuji is currently executive vice-president in charge of Nissan's production operation group and non-automotive operations group. He has held a wide range of positions within Nissan, mainly on the engineering side, since joining the company in 1954.

Mr Kume, who as president of the Japan Automobile Manufacturers Association (Jama), has been a powerful advocate for the industry, will not fade from the scene. Although he said he would not interfere with Mr Tsuji's management of the business, he will continue to be influential within the company and will continue as Jama chairman.

Mr Kume is also widely expected to be appointed vice-chairman of the Keidanren, the influential association of Japan's leading businesses, and could be in line for eventual promotion to chairman.

Mr Kume denied he had any understanding with the Keidanren. However, if Mr Kume is to join the organisation in an executive role, he would need to make himself available by May this year. Mr Kume turns 70 next month and would be ineligible for appointment to the Keidanren next year.

Hafnia withdraws Baltica share offer

By Hilary Barnes in Copenhagen

HAFNIA, the Danish insurance-based financial services group, has withdrawn a standing offer to buy any new shares issued by its domestic rival, Baltica, at DKr1,000 ($156.25) each.

Hafnia gave no explanation for withdrawing the offer, which was first made in 1990 as part of an unsuccessful attempt by it to gain control of Baltica.

Analysts, however, said Hafnia probably withdrew because its finances would come under excessive strain if Baltica made an issue and Hafnia had to make good its offer.

Hafnia has bought a substantial bloc of shares in Sweden's Skandia as part of an attempt, with Norway's UNI Storebrand, to gain control of Skandia and establish a Nordic insurance giant. The two challengers have received a somewhat sceptical reception from Skandia, although they held further talks on Wednesday.

Baltica Holding, meanwhile, reported a DKr271m ($42.3m) net profit compared with a DKr2.04bn loss in 1990. Last year's result was a return on capital of 3.0 per cent. An unchanged DKr8 per share dividend was proposed.

Life assurance profits rose from DKr199m to DKr466m and accident group profits from DKr225m to DKr277m. Baltica Bank, however, made a DKr334m loss as a result of large provisions on property engagements. It required a capital injection from the parent company.

Premium income in Danica, the life group formed following Baltica's acquisition of the state life assurance and pension company, Statsanstalten, increased from DKr1.17bn to DKr4.35bn. Accident group premiums increased from DKr4.09bn to DKr4.91bn.

Baltica said it would not this year achieve its target of a market rate of return on its equity capital.

Semi-Tech boosted by Singer

By Simon Davies in Hong Kong

SEMI-TECH (Global), the Hong Kong company which controls the Singer sewing machine group, achieved a 70 per cent jump in profit attributable to shareholders to HK$771m (US$99.1m) in the year to January 1992, from HK$453m in 1991.

The figures included a one-off profit of HK$268m from the public offering of shares in Singer, which was listed in New York in August 1991.

The Semi-Tech results reflect another strong performance from its US subsidiary, which increased its share of the world sewing machine market to 37 per cent and also reported a 28 per cent increase in sales of consumer durable products.

Turnover increased from HK$8.63bn to HK$9.37bn, largely due to the marketing of new Singer branded products.

A final dividend of 2.8 cents a share is recommended, making a full-year payout of 3.8 cents, against 2.7 cents in 1991.

Mr James Ting, executive chairman, said: "Given our strong cash flow, total elimination of acquisition-related debt and diversified low cost manufacturing sources, in combination with Singer's proven global marketing prowess, the outlook for the current year continues to be favourable."

The group aims to pursue this strategy with its investment in another fallen giant, Sansui Electric, in which it has acquired a 19 per cent stake from the collapsed Polly Peck International group.

Semi-Tech's Hong Kong partner in the deal, Grande Holdings, is to streamline the production process, making use of low cost facilities in Southern China, while Semi-Tech will utilise the 30,000 distribution outlets of the Singer network to provide a wider market for Sansui products.

INI plunges to Pta61.26bn loss

INSTITUTO Nacional de Industria (INI), the Spanish state industrial holding, has plunged to Pta61.26bn ($589m) pre-tax losses for 1991 from a profit of Pta9.24bn a year earlier, hurt by dismal performances from its steel, airline and defence companies, Reuter reports from Madrid.

Mr Javier Salas, chairman, said the Gulf war, Spain's slowed economic growth and comparatively steep inflation and interest rates dealt a blow to several of its key industries.

He said 1992 would see some improvement, but added that another year of hefty losses was likely. "It will be a bad year, but better than the terrible year we just experienced."


Javier Salas: expects some improvement this year

Iberia Lineas Aereas de España, the flag carrier 99 per cent owned by INI, chalked up a pre-tax loss of Pta54.19bn up from Pta26.11bn, in part because of plunging airline traffic due to the Gulf war.

The airline, which includes Chile's Landeco and Venezolana Internacional de Aviacion, hopes to raise up to Pta120bn in 1992 in new capital, currently under review by the European Community Commission. It plans to use this to help cover its Pta400bn fleet renovation and an investment strategy including further acquisitions in Latin America.

The steel group Grupo Ensidesa was also one of the worst performers among INI's 46 subsidiaries with a consolidated pre-tax loss of Pta35.59bn. In 1990, the group posted a Pta11.01bn loss.

Mr Salas pegged the company's poor results to plunging steel prices worldwide, slowing economic growth and the difficult restructuring process the Spanish steel sector now faces.

Construcciones Aeronauticas (Casa), the aircraft maker, posted a Pta3.74bn loss against a Pta4.6bn loss in 1990.

The company hopes for a cash infusion of around Pta43bn to help bring it back to profitability and position itself for a possible foreign alliance.

But Mr Salas offered a dim view of 1992 for the sector. "It will be a bad year for defence," he commented.

The group's best performer was the utility Empresa Nacional de Electricidad (Endesa). The Endesa group turned in a Pta131.74bn pre-tax profit in 1991, up from Pta108.84bn a year earlier.

Mr Salas added that INI was considering selling part of its 75.6 per cent holding in Endesa.

Third-quarter reverse for BHP

By Kevin Brown in Sydney

BROKEN Hill Proprietary (BHP), Australia's biggest company, reports a fall in third-quarter net profit to A$224m (US$172.3m) from A$245m in the previous year's comparable period.

However, BHP said the reduction was caused by an abnormal income tax benefit in the earlier period, which more than offset an improvement in pre-tax profits from A$359m to A$459m. Revenue fell by 5.6 per cent to A$3.6bn.

The result suggests BHP is unlikely to match last year's record full-year net profit of A$1.42bn, in spite of higher contributions from the steel division and its share in the Escondida copper mine in Chile.

Net profit for the first nine months of the year was A$631m, down 41 per cent on the previous comparable period. Before tax, profit for the nine months was down 13 per cent to A$1.1bn. Revenue fell 13 per cent to A$11bn.

BHP said net profits from the minerals division increased 16.8 per cent to A$171m in the quarter, largely because of an increased contribution from Escondida, which began shipments in the third quarter of 1991.

The Australian coal business also reported improved results, mainly due to increased sales volumes and the sale of its interest in a joint venture project. The gains were partly offset by lower results from manganese operations caused by lower demand.

The steel business produced a net profit of A$37m, compared with A$15m in the previous quarter, which was adversely affected by preparation for the relining of the group's largest blast furnace.

Steel despatches were 6 per cent higher than in the comparable quarter of last year, but 9 per cent below the second quarter of the current year. Steel exports were up 33 per cent, but export profits suffered from lower prices caused by over supply.

The petroleum division posted a net profit of A$83m, down 58 per cent on the previous period, which included the impact of high oil prices during the Gulf war. BHP said the division's net profit was 44.6 per cent lower if the impact of the war was excluded.

IBM Japan slides 32% to Y56.5bn

By Steven Butler in Tokyo

IBM Japan, the Japanese subsidiary of the world's largest computer company, has reported a 33 per cent decline in pre-tax profits last year, to Y103.5bn ($784.1m).

IBM blamed weak sales of computer hardware in the face of an economic slowdown that caused many customers to delay equipment purchases.

Sales were down to Y1,272.1bn from Y1,326.5bn. Domestic sales were off by 6.8 per cent to Y903.8bn Export revenues rose 3.3 per cent.

After-tax earnings were off 32 per cent to Y56.48bn.

As part of the worldwide restructuring of the IBM group, IBM Japan has been shifting its focus away from the hardware side. The company said sales of software, services, and system integration continued to grow.

Pohjola deeper in red as foreign business suffers

By Sara Webb in Stockholm

POHJOLA, the biggest Finnish insurance group, reported a dramatic surge in operating loss for 1991 due to heavy claims stemming from its foreign insurance business.

Operating loss jumped to FM588m ($129.5m) from FM108m a year earlier, but the directors proposed paying a maintained dividend of FM1 per share.

Profit from Pohjola's domestic direct insurance and reinsurance business was wiped out by underwriting losses of FM614m in its foreign insurance business – compared with a loss of FM97m.

Miss Pirkko Alitalo, director and chief financial officer, said the loss arose because foreign insurance claims were much larger than originally expected.

Fermenta tumbles

FERMENTA, the Swedish industrial group, reported a loss of SKr1.23bn ($206m) in 1991, after financial items, compared with a loss of SKr599m last time, writes Sarah Webb.

The group said Independent, its troubled financial subsidiary which it sold in March 1992, was partly responsible for the losses.

Israeli bank hit by debt write-offs

By Hugh Carnegy in Jerusalem

LEGISLATION forcing Israel's banks to write off large chunks of agricultural debt slashed 1991 profits at United Mizrahi Bank, the country's fourth largest banking group. The group is for sale under the government's programme to sell its majority bank shareholdings.

Net profits of Shk32.7m ($13.7m) were up by more than three times compared with Shk7.2m in 1990, in large part due to strong performance at the group's mortgage bank, Bank Tefahot. Return on capital recovered to 5 per cent, compared with 1.1 per cent.

However the core Bank Mizrahi slipped to a Shk8.1m net loss from a Shk2.1m profit under the burden of bad debt provisions. The group was forced to set aside Shk98m for the agricultural sector out of total provisions of Shk195m, including Shk57m to take account of write-offs recently dictated by parliament to ease the debt burden on the country's Moshavim collective farms.

The Bank of Israel, which has strongly criticised the law, has warned that the legislation will all but wipe out 1991 profits at the big banks, which are all reporting this week.

The central bank and Treasury are particularly incensed as they are involved in trying to sell the government bank holdings, acquired for $7bn following a share collapse in 1983. Bids close for a 25-to-51 per cent share in United Mizrahi, currently controlled by the United Mizrahi religious organisation, on April 30.

Chairman expects Stefanel to maintain profit

By Haig Simonian in Ponte di Piave

STEFANEL, the Italian casual clothing group best known for its brightly-coloured knitwear, is likely to report static earnings when it publishes full figures shortly.

Mr Giuseppe Stefanel, chairman, said the company had experienced a year of "consolidation" in 1991. Stefanel's earnings recovered strongly in 1990 after being depressed by a variety of factors the previous year.

Last year's earnings were also hit by the fact that group sales were virtually unchanged from the L434bn ($350.28m) in 1990, rather than reaching about L460bn, as targeted.

Turnover for 1991, which will be between L435bn and L436bn, was affected by the decision not to bid for certain brands which had been produced by the group's CFM subsidiary. The move had reduced group sales by some L30bn last year, according to Mr Stefanel.

He remained cautiously optimistic about the dividend, which he said would at least match that paid in 1990.

Mr Stefanel argued that it had been a considerable achievement to maintain the group's earnings and sales performance during a very difficult year.

Looking ahead, he expected sales to reach L500bn this year, thanks to continuing geographical expansion and the steady upgrading of the company's core Italian outlets.

However, he recognised that achieving the group's target of 15 to 20 per cent growth in sales annually would not be easy "at a time of virtually static prices".

ITALTEL, the Italian state-owned telecommunications equipment maker, raised net profits to L132.5bn ($106.94m) last year from L120.9bn in 1990, despite continuing falls in telecoms equipment prices, writes Haig Simonian.

Part of the earnings increase stemmed from sharply higher group turnover, with a 24 per cent surge in volume terms. However, the effect of continuing price competition was reflected in the fact that group sales rose by only 17.4 per cent to L2,760bn from L2,350bn.

Earnings were again boosted by productivity increases. However, Italtel said 1991 profits had been hit by extraordinary costs related to an early retirement scheme. It gave no details about the size of the extraordinary item.

INTERNATIONAL CAPITAL MARKETS

EURO-COMMERCIAL PAPER

Diversity hampers liquidity growth

THE Euro-commercial paper market may have failed to fulfil ambitions of matching the $500bn US CP market for size and liquidity, but it can at last claim to be a reasonably profitable market for participants, and an efficient source of funds for rated borrowers.

The level of outstanding Euro-commercial paper is close to $90bn, having grown slightly in the last year or so, according to bankers. Mr Len Harwood, head of capital markets at UBS Phillips & Drew, expects the market to benefit from a shift of investors towards the short end of the yield curve. "The market could grow by around 20 per cent over the next year."

However, the lack of a homogeneity, as in the US market, will continue to hinder the development of a large, liquid Euro-CP market.

Although most programmes are still denominated in US dollars, multi-currency programmes have become increasingly common. In particular, the portion of the Euro-CP market denominated in Ecu has risen substantially to around 15 per cent and is set to expand further. At the same time, the liberalisation of regulations has allowed active domestic commercial paper markets to develop in a number of European countries, such as France.

Although such diversity could be said to fragment liquidity, it also increases the market for borrowers.

The Euro-CP market has also become increasingly credit-sensitive, so the bulk of outstanding paper is rated A1/P1 or above. This has limited the size of the issuer base, while some borrowers' problems in rolling over commercial paper has encouraged companies to establish stronger back-up lines.

However, Mr Warren Spar, managing director at Lehman Brothers, says "companies are refinancing more expensive, Libor-plus, bank debt in the commercial paper market". The trend is selective, though, since "the importance of credit rating continues to grow".

Structural changes have diverted the market from a self-destructive path. The departure of a clutch of market participants, such as Merrill Lynch and Warburg, has helped ease excessive competition. Also, the application of a commission-based structure, similar in concept to the fixed-price re-offer mechanism in the Eurobond market, has helped restore margins.

For large European companies, the US commercial paper market still offers greater flexibility, because it is bigger and more liquid. BAT, which issues large amounts in the US CP market, and has a sterling CP programme, does not feel the need for an ECP programme.

The US CP market is "an easier market in which to write big tickets," according to David Sloper, manager of Abbey National's dollar portfolio.

In the longer term, the trend most bankers hope to see, as deregulation accelerates, is for the border between US and Euro-CP to blur so that a global commercial paper market develops.

Tracy Corrigan

EUROMARKET TURNOVER ($m)

	Primary Market US $	Primary Market Non-$	Secondary Market US $	Secondary Market Non-$
Fixed income bonds				
Euros straight	2,187.7	8,975.7	21,811.4	61,808.0
Other straight	0.0	1,707.9	702.6	60,074.5
Convertible	339.9	8.1	886.4	1,088.3
Money market instr				
FRN	385.1	228.2	5,878.5	5,798.7
CD's	119.8	68.6	984.3	306.7
Short & MT Notes	16,071.5	3,734.6	5,486.9	11,171.2
Warrants	0.0	0.0	767.3	259.2
Equities	695.6	28.8	896.8	1,643.8
Total	19,749.4	9,748.8	36,384.2	164,089.8

	Cedel	Euroclear	Total
US$	19,587.4	36,256.2	55,143.6
Other	60,901.6	112,983.7	173,885.3

Week to March 26, 1992
The Warrants and Equities figures are from Euroclear only. Source ISMA

INTERNATIONAL BONDS

Uncertainty and over-supply slow new issue activity

EUROMARKET participants may be struck by a feeling of *déjà vu* looking back over the *first three months of this year.* As in 1991, the period saw a torrent of new issues as investors flocked to the market, followed by near-paralysis as uncertainty and the effects of over-supply took hold.

If anything, the swing from boom to bust was even more pronounced this year than last. In total, $73.6bn new Eurobonds were issued, against $63.5bn in the first quarter of 1991. Yet the slowdown in new issue activity during March has been spectacular. Only a handful of new issues was launched last week, most meeting a muted response.

One reason for the slowdown in new issue activity over the past two weeks is economic: there is deep uncertainty over the prospects for both the US and European bond markets. The yield on the US Treasury long bond retreated back above 8 per cent this month, and analysts are divided about the future prospects.

One leading Eurobond firm admitted last week that even its in-house economists were divided over the outlook for the dollar bond market. Some see a triple-dip US recession on the horizon, with the long bond rising and the yield falling towards 7.5 per cent. Others see a resurgence of growth and inflationary pressures in the US economy, with the long bond moving to 8.5 per cent by the middle of the year.

In Europe, most bond markets have lost the gains made in the aftermath of the Maastricht summit, which seemed to set the economies on a path towards monetary union and low inflation.

Against this background, institutional investors are loathe to commit additional funds to the market.

However, the over-supply of bonds during February and the early part of March has greatly accentuated the problem. Many Eurobond firms are holding substantial inventories of unsold paper, much of it underwritten at prices which no longer reflect secondary market levels.

Just how much of the $73bn total new issuance remains on the books of underwriters is uncertain. Estimates range from 35 per cent of total new issuance - dismissed as outlandish by many syndicate officials - to a modest $5bn equivalent. The truth is probably somewhere between the two.

The league table of lead managers shows some substantial changes over this time last year. Deutsche Bank Capital Markets is the biggest winner in terms of market share, rising to the top slot from seventh position at the end of the first quarter of 1991. Union Bank of Switzerland also increased its volume of lead underwriting, rising to third position from 10th under the management of Mr Len Harwood, who assumed responsibility for new issue activity at the end of last year.

In contrast, Morgan Stanley International was at the head of the league table in March 1991 but now stands at 19th position. Banque Paribas Capital Markets has fallen from second place to fifth.

The slide of both firms is due to the lower volume of large Ecu bond issues by sovereign and supranational borrowers over the past three months. Ecu bond issuance amounted to $13.5bn equivalent, from $15.53bn in the first three month of last year. The Ecu remained the second most popular Euromarket currency, but the dominance of the dollar has not been threatened this year as it was in the early months of 1991.

However, market share does not always equate with profitability. The firms rumoured to be carrying the most unsold inventory of bonds also appear towards the top end of the underwriting league table.

Simon London

EUROBOND ISSUES BY CURRENCY

1st quarter 1992 Rank	Currency	Total raised ($bn)	No. of issues	1st quarter 1991 Rank	Total raised ($bn)	No. of issues
1	US$	20.15	109	1	17.61	79
2	Ecu	13.50	45	2	15.53	20
3	Yen	9.04	45	4	7.26	46
4	D-Mark	8.52	53	6	3.90	34
5	Lira	8.33	34	8	2.08	11
6	Sterling	5.26	22	3	7.45	37
7	FFr	4.66	24	7	3.50	17
8	C$	2.97	20	5	3.97	24
9	Guilder	1.70	13	10	0.55	2
10	A$	1.38	20	9	1.45	22

Source: IFR BONDBASE

TOP EUROBOND LEAD MANAGERS

Manager	First quarter of 1992 $bn	Rank	%	Issues	First quarter of 1991 $bn	Rank	%	Issues
Deutsche Bank	6.54	1	8.95	32	2.84	7	4.49	14
Nomura	5.24	2	7.18	27	5.63	3	8.88	28
UBS	4.89	3	6.69	16	1.70	10	2.68	7
CSFB	4.63	4	6.33	19	3.59	5	5.66	13
Paribas	4.11	5	5.62	14	6.50	2	10.25	9
Nikko	3.71	6	5.08	22	1.99	8	3.15	12
Yamaichi	2.82	7	3.86	15	1.93	9	3.04	18
Daiwa	2.48	8	3.39	21	3.87	4	6.11	22
Merrill Lynch	2.33	9	3.19	12	3.12	6	4.93	7
Goldman Sachs	2.13	10	2.91	10	1.36	13	2.15	7
CCF	2.03	11	2.78	6	1.18	15	1.86	3
IBJ	2.02	12	2.77	5	1.07	16	1.68	6
JP Morgan	1.89	13	2.59	9	0.65	-	-	7
SG Warburg	1.79	14	2.45	7	1.62	12	2.55	9
SBC	1.68	15	2.29	9	1.62	11	2.55	8
Commerzbank	1.64	16	2.24	6	0.27	-	-	2
BNP	1.58	17	2.16	4	0.97	-	-	1
Credit Lyonnais	1.45	18	1.99	9	0.97	19	1.53	5
Morgan Stanley	1.21	19	1.66	4	6.53	1	10.31	6
Bankers Tst.	1.16	20	1.59	7	0.97	18	1.53	8
Industry totals	73.11			390	63.57			310

† Preliminary Figures - Full credit to book runner. Source: IFR BONDBASE

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Onward Kashiyama(c)‡†	200	1996	4	3.25	100	Nomura Intl	3.250
Unibanco(d)†	100	1994	2	10	99.119	Citicorp Inv. Bk.	10.775
Dai-Ichi Kangyo Bk(e)‡†	30	2002	10	(b)	100.30	DKB	-
Copene-Petro.do Nord.(g)†	50	1994	2	11	98.267	Chase Investment Bk	12.360
Tohoku Elec. Power†	250	1997	5	7.75	101.50	Yamaichi Intl.	7.389
Nacional Financiera†	100	1999	7	9.375	99.25	Bear Sterns Intl.	9.571
Ost. Postsparkasse†	800	1995	3	6.625	101.1775	Nikko Europe	6.183
ECUs							
ASLK-CGER IFICO†	75	1994	2	10	101.605	Natwest Cap. Mkts.	9.097
YEN							
Daicel Chemical Inds.†	10bn	1997	5.25	6.10	101.675	Nomura Intl.	5.715
Mitsui & Co Ltd.(h)†	30	1996	4	(h)	101.47	Daiwa Europe	-
Suzuki Motor Corp.†	20	1996	4.25	6	101.45	Nikko Europe	5.677
Seiyu†	20bn	1997	5.25	6.15	101.50	Nomura Intl.	5.804
Taisei(j)‡†	20bn	1997	5.25	(j)	100	Salomon Bros. Intl.	-
China & Intl. Tst & Inv.†	20bn	1997	5.25	6.4	101.50	Daiwa Europe	6.050
SWISS FRANCS							
Kito Corporation.(b)**‡	60	1996	-	4.125	100	Nomura Bank	4.155
Hitachi Info Systems(a)‡	100	1996	-	3.375	100	SBC	3.375
Rabobank Nederland†	100	1996	-	7.000	101.875	Merrill Lynch Cap.Mkts.	6.455
FR Corp.(f)‡	45	1996	-	4.125	100.00	Banca d'Svizzera Ital.	4.125
Semba Corp.**‡	20	1997	-	7.500	99.50	Dai-Ichi Kangyo Bk.	7.624
D-MARKS							
Segami(c)‡†	60	1996	4	4.625	100	Nikko Bank (Deutsch)	4.625
Eskom†	300	1997	5	10.000	101.00	Commerzbank	9.738
Marconi Group§	90	1996	4	5.125	100.00	Nomura Bk.(Deutsch.)	5.125
East Asiatic Co.†	150	1997	5	8.75	101.30	WestLB	8.421
Osaka Gas†	300	1997	5	8.5	101.375	WestLB	8.154
GUILDERS							
Buehrmann Tet. Amst.†	150	1997	5	8.750	100.25	ABN Amro	8.686
ESCUDOS							
Euro.Coal & Steel Comm.†	10bn	1997	5	11.125	100.90	Bco.Port.de Invest.	10.822
CANADIAN DOLLARS							
Council of Europe.†	125	1994	2	8.375	100.735	Morgan Stanley	7.981
PESETAS							
Inter-American Dev. Bk(k)†	10bn	1997	5	10.75	101.45	Banco Exterior Intl.	10.384
LUXEMBOURG FRANCS							
Commerzbank Intl.†	2bn	2002	10	9	102.375	BCEE	8.636
ABN Amro Lux.(l)†	1bn	2000	8	9	102.25	BIL	8.600
BCA Popolare**†	400	1996	3.417	9.25	101.85	Kredietbank	8.667
GB Intl. Lux.†	1bn	1993	1	10	101.375	Credit Europeen	8.608

**Private placement. §Convertible. ‡With equity warrants. †Floating rate note. ◆Variable rate note. †Final terms. a) Exercise premium fixed at 2.61%. Non-callable. b) Exercise premium fixed at 2.51%. Coupon payable semi-annually. Put option on 3/3/94 at 109.75 to yield 8.753%. c) Exercise premium fixed at 2.50%. Non-callable. Coupon payable semi-annually. Non-callable. e) Callable on 6/4/02 at 75bp over 6-month Libor for first 2 years then [illegible] thereafter. f) Put option 3/3/94 at 108 to yield 8.866%. g) Coupon payable semi-annually. Non-callable. h) Coupon pays [illegible], then pays [illegible] below 3 month Libor from 10/7/95. i) Subordinated issue. Non-callable. j) Coupon pays 80bp below Japanese long term Prime rate and payable semi-annually. k) [illegible] issue. Non-callable. Note: Yields are calculated on ISMA basis.

UK GILTS

Prices battered by election jitters

THE GILT market suffered as yields rose for most classes of UK government bonds, against a background of worries about the election and a possible rise in interest rates in the next two months.

During the week, yields for 10-year securities rose about 10 basis points, making an increase of some 60 basis points over the past month. There has been a consequent decline in prices.

The yield increase may make it more difficult for the Bank of England during the next six months to raise the revenues it needs through new gilt issues to pay for the large increase in public sector borrowing envisaged by the Treasury.

The tendency towards higher yields was particularly noticeable at the short end of the yield curve. That reflected the view that sterling may be susceptible to selling pressure in the next few weeks, which might force the government to increase short-term base rates to prevent the pound slipping beneath its band in the European exchange rate mechanism.

But despite the recent decline in prices, the mood in the gilt market is not all gloom. Many gilt practitioners reckon that, at their current prices, UK securities are cheap compared with their counterparts in other government bond markets. As a result, buying pressure, particularly from overseas, could become evident in the weeks ahead.

Last week, the main focus for gilts investors was the April 9 general election, with more opinion polls pointing to the possibility of a Labour victory or a hung parliament.

That worries many people in the market, on the grounds that Labour might push up government borrowing further, or there could be a run on the pound as nervous investors switch funds out of sterling.

As a result, the week saw a general decline in prices, with the benchmark Treasury 10 per cent bond maturing in 1994 edging down to 99¾, a fall of about a quarter of a point. The yield climbed 13 basis points to 10.22 per cent.

The price for the longer-dated 9 per cent stock due in 2008 fell by more than half a point to 94⅛. The yield on Friday night was 9.87 per cent, up 7 basis points. At the 10-year maturity level, yields were pushed up by 9 basis points to 9.94 per cent, close to the psychologically-important 10 per cent mark last seen in August 1991.

German bond yields also rose, by about 6 basis points at the 10-year mark, largely due to worries about inflation and because of growing consensus that the Bundesbank is unlikely to ease interest rates before late-summer.

Even though German bonds have seen a general rise in yields this month, the change has been small compared with the increase in gilt yields. As a result, the difference between German and UK yields has increased considerably from the low point last autumn. UK bonds have yields 181 basis points higher than comparable German ones, compared with 123 basis points in September.

Some believe this could offer a buying opportunity for gilt investors. Mr Philip Tyson, a bond analyst at UBS Phillips & Drew, reckons buying support could easily push up prices, particularly if the market is boosted by opinion polls pointing to a Tory win.

A longer-term consideration for many in the market is the volume of new issues by the Bank which will be needed to pay for the rise in the public sector borrowing requirement, which the Treasury sees reaching £28bn in 1992-93 and £32bn the year after. Taking into account gilt redemptions, this means that during the next financial year – and probably the one after as well – the Bank will probably have to sell about £3bn of gilts a month.

Mr John Shepperd, an economist at S.G. Warburg Securities, believes the Bank will have to gain much of this sum by issuing long-dated gilts, in the 10-20 year maturity area.

However, now there is little incentive for institutions such as pension funds to buy gilts of this maturity, as prices for them are higher than those of shorter-dated bonds. Accordingly, yields are lower: a 20-year gilt provides about 9.6 per cent, some 30 basis points below the level for 10-year gilts.

As a result of such thinking, Mr Shepperd believes that during the next year or so, yields for long and short-dated securities will start to converge, making it no less attractive for investors to buy long-dated gilts as short-dated ones.

Peter Marsh

FRENCH BONDS

Recovery imminent as market hits nadir

WHEREVER you go in Paris the favourite guessing game is whether – and if so – when President François Mitterrand will have Mrs Edith Cresson replaced as prime minister.

The fate of Mrs Cresson has been debated so loudly for so long that the smart school in French finance tends to dismiss it as an irrelevance. Irrelevant or not, the dire performance of the ruling socialists in last Sunday's regional elections sent the French bond markets spinning downwards on Monday morning only to waver for the rest of the week.

The prime minister's future is still in the balance, but the outlook for French bonds looks much brighter. The consensus is that the market has now reached its nadir – what no-one seems to agree on is when the recovery will begin.

"Things can only get better," said Mr Bernard Godement, head of French economic research at the Nomura Research Institute in Paris.

Mr Godement reckons the upswing has already started. Others are more pessimistic. Mr François-Xavier Chauchaud, market economist at Banque Indosuez in Paris, agrees with Mr Godement that the market will not fall any further, but he expects to see a few sluggish weeks of stability before it starts to rise again.

"You have to remember how heavily investors' perceptions of France are influenced by events in Germany," he said. "I don't see any prospect of a real recovery in the French bond market until there is evidence that German inflation is falling, and we won't get that for another month."

So far this year the progress of French bonds has been at best erratic. The market was strengthened by interest from international investors in the opening months of the year, only to fall again when they retreated in the approach to last weekend's elections.

The yield on the benchmark 10-year OAT government bond ended last week at 8.72 per cent, compared with 8.38 per cent a month ago. The Matif bond futures contract hovered around 107.6 at the end of the week.

Meanwhile, the spread of French bonds over German bunds, now seen as a critical mark of the market's competitiveness, has widened to around 66 basis points. This is still lower than the peak of 70 basis points just before the Maastricht summit in early November, but well above the levels achieved earlier this year.

France may have slowed down, but it shows no sign of slipping into real recession. Unemployment is still rising and hit 9.9 per cent in February. But Mr Pierre Bérégovoy, the finance minister, is still exercising tight control of the economy and inflation was held at 3 per cent last month.

The latest forecast from Paribas suggests that the French economy ought to muster growth of 1.8 per cent this year – lower than the official forecast of 2.2 per cent, but well above the 1 per cent achieved last year.

When German interest rates come down, presumably in the second half of this year, French rates will almost certainly follow. This should be the final fillip for the bond market.

Alice Rawsthorn

MONEY AND CREDIT

Fed spells out bond auction reforms

THE REPERCUSSIONS of last year's Salomon Brothers bond trading scandal continue to reverberate around the US Treasury markets.

Earlier this year the government unveiled plans to reform the bond auction system – the process by which the Treasury sells new government securities to the dealing houses and investing institutions.

The new system would involve an ascending-price plan which allocates securities based upon the lowest interest rate bidders are willing to accept. All bids would be submitted electronically, and every participant in the new, "dutch", auction would be able to see the bidding at every stage.

At the close of each auction, the securities would be distributed to bidders at the same price. The amount of securities each bidder receives would depend on the interest rate they were willing to accept.

The Federal Reserve Board, which, with the Treasury and the Securities and Exchange Commission, launched an investigation into ways to improve the auction system in the wake of the Salomon scandal last summer, has now explained why it thinks its proposed new auction process would be an improvement on the current system.

The Fed's thinking has been laid out in a paper written by Mr Vincent Reinhart, chief of the Fed's banking and money market analysis section, and reportedly the architect of the new auction plan. In the paper, the Fed admits the current system was susceptible to "squeezes" and "corners".

A squeeze occurs when one or a small group of bidders buys up most or all of a new issue – in effect, cornering the market – and uses its position to force rivals, especially those who sold the new issue short, to pay more for the securities.

Mr Reinhart explains how firms that wanted to create a squeeze or a corner could prey on three weaknesses in the existing auction system: one, there was always a core of reliable demand for the securities from short-sellers who had traded in the when-issued market; two, the method of allocating the securities made demand at the auction acutely price-sensitive; and three, the use of sealed bids meant a "cornerer" could place bids only marginally better than the consensus, yet win all the awarded securities.

The paper went on: "Clearly, one dealer with adequate capital could take advantage of the system." One such dealer was Salomon, which with its billion dollar capital muscle, could afford to swallow huge amounts of the newly auctioned securities. The Fed's conclusion, therefore, was that the design of the current system provided dealers and investors with incentive to manipulate the auction process.

Despite these inherent faults, the Fed does not believe the current system is entirely bankrupt. Moreover, Mr Reinhart's paper acknowledges that the proposed new system may also be open to abuse, and that setting up a real-time auction will pose a daunting technical challenge.

In particular, it warns of potential hazards in the transition to a new system. The biggest fear, and one voiced by many of those who oppose the new plan, is that investors will be reluctant to enter the new auction because of unfamiliarity with the process.

Most of the opposition to the plan is coming from the primary dealer community. They already face a loss of value in their dealership franchise, with the government pledged to open up bidding to a host of other financial institutions.

Even worse, if the proposed changes are introduced, primary dealers will no longer have crucial inside knowledge about the progress of each auction. In the current auction process, the primary dealer's exclusive access to the Fed means investors feel they must bid through the dealers if they are to stand a chance of being awarded any securities.

Under the new system, customers will be confident of bidding on their own because the crucial inside knowledge – who is bidding for what – will be on the screens for all to see.

The Fed is not rushing into anything. In June it plans to host, with the Treasury, a seminar on the proposals. After considering the views of the securities industry, it plans to start experimenting with the new system next year.

Everything, however, will have to wait until the automation of the current antiquated auction process is finished.

Patrick Harverson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	3.50	3.75	4.19	11.00	2.00
Three-month Treasury bills	4.09	4.15	[illegible]	8.25	3.76
Six-month Treasury bills	4.27	4.37	4.12	7.70	3.89
Three-month prime CDs	4.30	4.32	4.16	7.17	4.01
30-day Commercial Paper	4.25	4.23	4.15	7.22	3.90
90-day Commercial Paper	4.25	4.30	4.15	7.02	3.92

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	95½	+¼	[illegible]	7.35	6.91
10-year Treasury	99⅞	+⅜	7.52	7.62	7.25
30-year Treasury	100⅞	+1⅛	7.94	8.04	7.79

Money supply: In the week ended March 16, M1 rose by $3.8bn to $943.4bn. M2 fell by $4.3bn to $3,478.2bn.

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid	Offer	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

D-MARK STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GUILDER STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ECU STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AUSTRALIAN DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STERLING STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NEW ZEALAND DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FRENCH FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EQUITY WARRANTS				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant cur yld = exercise yield at current warrant price.

Closing prices on March 27

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible] — Pool purchase price £/MWh	Final Prices for Trading on [illegible] — Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.94	17.05	17.05
0100	[illegible]	17.40	[illegible]
0130	[illegible]	17.40	18.91
0200	23.38	17.40	18.90
0230	23.38	17.40	[illegible]
0300	[illegible]	17.40	18.92
0330	17.17	17.40	18.92
0400	17.17	17.01	17.01
0430	17.17	17.01	17.01
0500	16.73	17.00	17.00
0530	16.69	17.01	17.01
0600	16.66	17.01	17.01
0630	[illegible]	17.01	17.01
0700	16.66	17.01	17.01
0730	16.66	17.01	17.01
0800	16.66	17.00	17.00
0830	16.66	17.01	17.01
0900	16.66	17.01	17.01
0930	16.67	17.01	17.01
[illegible]	17.35	17.12	[illegible]
1030	[illegible]	17.24	18.75
1100	17.35	17.12	[illegible]
1130	17.35	17.24	[illegible]
1200	17.35	17.24	[illegible]
1230	17.35	17.24	18.74
1300	17.35	17.24	18.74
1330	17.35	17.24	18.74
1400	17.35	17.24	18.74
1430	[illegible]	17.42	18.92
1500	17.35	17.42	18.94
1530	16.71	17.42	18.94
1600	16.67	17.02	17.02
1630	16.67	17.02	17.02
1700	16.67	17.02	17.02
1730	16.67	17.02	17.02
1800	[illegible]	17.45	18.98
1830	17.35	18.65	[illegible]
1900	[illegible]	[illegible]	21.18
1930	17.35	19.60	21.17
2000	17.35	17.45	18.95
2030	[illegible]	17.42	18.92
2100	17.35	17.42	18.92
2130	17.27	17.42	18.92
2200	17.27	17.24	18.74
2230	17.26	17.12	18.61
2300	17.01	[illegible]	17.02
2330	[illegible]	[illegible]	[illegible]
2400	[illegible]	[illegible]	[illegible]

Prices are determined for every half-hour in each twenty-four hour period. [illegible] moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible] — Pool purchase price £/MWh	Final Prices for Trading on [illegible] — Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.64	17.04	17.04
0100	16.64	[illegible]	18.24
0130	16.76	17.46	18.24
0200	17.25	17.46	18.24
0230	17.27	17.42	18.20
0300	17.27	17.42	[illegible]
0330	17.27	[illegible]	18.20
0400	[illegible]	17.04	17.04
[illegible]	17.05	[illegible]	17.02
0500	16.75	17.02	17.02
0530	[illegible]	17.02	17.02
0600	16.72	17.03	17.03
0630	16.81	[illegible]	17.04
0700	16.87	17.07	17.07
0730	17.81	19.10	19.96
0800	21.76	19.10	19.95
0830	24.64	18.80	19.65
0900	24.60	[illegible]	20.63
0930	24.55	18.83	19.68
1000	24.63	23.47	24.47
1030	24.60	19.77	20.69
1100	23.46	19.76	20.64
1130	23.44	19.76	20.63
1200	23.49	19.31	20.17
1230	22.99	19.75	20.62
1300	22.97	[illegible]	20.61
1330	21.80	18.80	19.65
1400	22.94	18.80	19.64
1430	22.94	19.10	19.94
[illegible]	21.26	19.10	19.94
1530	21.21	17.07	17.07
1600	21.22	[illegible]	17.07
1630	24.22	17.07	17.07
1700	24.22	19.10	19.94
1730	24.21	19.12	19.96
1800	24.18	20.92	21.83
1830	20.62	23.57	24.54
1900	17.80	23.57	24.52
1930	17.80	20.87	21.74
2000	17.64	20.52	21.37
2030	23.95	[illegible]	19.93
2100	23.95	19.10	19.93
2130	23.95	19.10	19.93
2200	23.95	17.07	17.07
2230	17.51	[illegible]	17.04
2300	16.90	[illegible]	17.03
2330	[illegible]	[illegible]	[illegible]
2400	[illegible]	[illegible]	[illegible]

Prices are determined for every half-hour in each twenty-four hour period. [illegible] moved one place to the left, eg £16.88/MWh becomes 1.688p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · FRANCE (continued) · GERMANY · GERMANY (continued) · ITALY · NETHERLANDS · NORWAY · SPAIN · SWEDEN · SWEDEN (continued) · SWITZERLAND · SOUTH AFRICA · AUSTRALIA · AUSTRALIA (continued) · HONG KONG · MALAYSIA · SINGAPORE · JAPAN

CANADA

TORONTO

4:00 pm prices March 27

MONTREAL

4:00 pm prices March 27

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

	Mar 20	Mar 13	Mar 6	year ago (approx.)
Dow Industrial Div. Yield	2.80	2.84	2.84	3.53

	Mar 25	Mar 18	Mar 11	year ago (approx.)
S & P Industrial div. yield	2.62	2.61	2.64	2.88
S & P Indl. P/E ratio	28.78	28.91	28.51	17.95

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
RJR Nabisco	3,872,100	9⅞	- ⅛
Pepsico	2,380,900	34⅛	+ 1⅛
Household Intl	2,180,400	46⅛	- 9⅛
IBM	2,140,600	83⅛	- ⅞
Catalina	1,975,400	28	.....
Amer Express	1,915,000	23⅛	- ⅛
Citicorp	1,893,600	17⅛	.....
Glaxo	1,880,900	27⅞	- ⅛
Digital Equip	1,858,000	54⅛	- 2⅛
Advanced Micro	1,727,500	17⅞	- 1⅛

TRADING ACTIVITY

† Volume (Millions)	Mar 27	Mar 26	Mar 25
New York SE	166,020	[illegible]	192,080
Amex	14,029	15,008	14,461
NASDAQ	[illegible]	175,496	191,947
NYSE			
Issues Traded	2,200	2,203	2,214
Rises	446	770	768
Falls	1,234	843	881
Unchanged	520	590	565
New Highs	21	38	45
New Lows	30	18	16

CANADA

TORONTO	Mar 27	Mar 26	Mar 25	Mar 24	1992 HIGH	1992 LOW
Metals & Minerals	2918.18	2968.18	2978.83	3004.83	3238.67 (16/1)	2918.18 (27/3)
Composite	3416.80	3448.90	3452.30	3437.80	3666.00 (16/1)	3416.80 (27/3)
MONTREAL Portfolio	1777.06	1796.06	1801.49	1792.77	1937.59 (16/1)	1777.06 (27/3)

TOKYO - Most Active Stocks

Friday 27 March 1992

	Stocks Traded	Closing Prices	Change on day
Minebea	6.0m	486	-44
Clarion	4.7m	810	-130
Nippon Carbon	3.1m	1,100	-130
Mochida Pharm	2.9m	5,160	-490
Kurabo Inds	2.9m	494	-37
Tokyu	2.6m	650	-60
Japan Storage	2.4m	1,050	-70
Dainippon Ink	1.9m	428	+2
Nippon Steel	1.9m	316	-6
Meiji Milk	1.8m	841	-37

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline, call 0891 123456. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2128

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F

Brewin Dolphin Unit Tst Mgrs Ltd (0905)F

Britannia Life Unit Managers Ltd (1200)F

Confederation Funds Mngt Ltd (1200)F

Gartmore Fund Managers (1200)F

INVESCO MIM UT Mngrs Ltd - Contd.

Kleinwort Benson Unit Trusts (1400)F

Marlborough Fund Managers Ltd (1630)F

Martin Currie Unit Trusts Ltd (0905)H

National Provident Inv Mgrs Ltd - Contd.

Newton Fund Mngrs Ltd (1200)F

Save & Prosper Group (0900)H

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible] The symbols are as follows: (▼) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (♣) - 1701 to midnight. [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

Other explanatory notes are contained in the last column of the FT Managed Funds Service

[illegible]

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh					031-226 3271	
American ♥	5	296 6	296 6	316 5	0 72	41410
(Accum Units) ♥	5	349 1	349 1	372 5	0.72	41411
British	5	768.6	780 1xd	825 4	6.06	41416
(Accum Units)	5	1288.9	1308.2	1384 2	6 06	41417
European	5	342.0	342 0	363 7	1 38	41418
(Accum Units)	5	370 7	370 7	394.3	1 38	41419
Japan	5	98 88	98 88	105 3	-	41420
(Accum Units)	5	99.67	99 67	106.1	-	41421
New Pacific	5	199 9	199.9	213.2	1 62	46765
(Accum Units)	5	205.3	205 3	219 0	1 62	47954
PEP Mar 25	5	144 7	146 0	154.5	3 96	47588
Mngd Equity	5	122 9	124.2	131 4	2 83	47589
Mngd Equity Acc	5	130 4	131 8	139.4	2 83	40556
Mngd Cash	0	97 09	97 09	97 09	10 13	47585
(Accum Units)	0	119 7	119 7	119 7	10 13	40287
Majority Stlg	1	101.06	101 06	102.06	9.94	42703
Majority Stlg Acc	1	110 04	110 94	111 14	9.94	46689
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries 0277 227300				Dealing 0277 261010		
International Mar 13	0	51.10	51.10	51 56	3 18	46906
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
St Mark's Court, Horsham					0403 232323	
Equity	6	584 0	591 6	632.7	3 24	41423
North America	6	87 20	87 20	93.26	0 32	41424
Far East	6	87.01	87.01	93.10	0 94	41425
W'wide Bond	6	48 76	48.76	51 87	6.39	41426
European	6	68 51	68 51	73 27	1 56	41429
Equity Income	6	63 37	63 37	67 78	6 18	41430
Portfolio	6	57 76	57.76	61.78	2.54	41431
Broker Trusts						
Worldwide Growth	6	47 00	47 00	50.00	2.23	47736
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingview, Basingstoke, Hants					0800 525725	
American Growth	6	27 58	27 58	29 50	0 66	47795
Managed Assets	6	98.62	99 39	106.31	3 81	44067
UK Income	6	29 67	30 03	32 12	5 03	41432
UK Growth	6	29 99	30.31	32 42	3 78	41433

	Bid Price	Offer Price	Yield Gross	City-line
M & G Securities Ltd				
Charibond Mar 26	101 98		10 58	40883
(Accum Units)	617.58		10 58	40884
NAACIF Mar 24	39.75		9.75	46417
Morgan Grenfell Investment Funds Ltd				
Exempt Funds				
UK Equity † Mar 24	124.3	134.0	2 82	46925
Un Small Co † Mar 24	506.3	556 5	3 60	46926
Fixed Interest † Mar 24	110.7	116 4	8 60	46920
US Small Co Mar 24	184 3	197.1	0.00	46927
Managed Mar 24	106.6	114.3	3 48	46924
Intl Bond Mar 24	121.3	128 0	10 02	47790
Japan Mar 24	62.41	66.55	4.41	47877
European Mar 24	92.10	98.53	1.72	47876
Nth American Mar 24	125.4	135 0	1.18	47878
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Mar 25	57.08	59.37	1.76	41064
Euro Expt Mar 25	53 74	56 43	2.25	41065
Fixed Int Ex Mar 25	46 90	48.06	9 05	46594
Japan Expt Mar 25	38.37	39.91	0.78	41066
Managed Ex Mar 19	43 80	45.55	4.39	41067
SE Asia Expt Mar 25	78 50	82.43xd	2.34	41068
Sm Cos Expt Mar 25	35 27	37.04	3.44	41069
UK Eqty Ex Mar 25	41 92	44 02xd	4 11	41070
Phillips & Drew Fund Management Ltd				
Small Co's Mar 4	685.08	728.90	4.18	41138
Do Accum.	794 71	845.53	4.18	41139
Int. Expt Mar 26	189.55	193 56	1.72	41140
UK Index Mar 4	1188.34	1203.16	4 74	46945
Do Accum.	1315.24	1331.65	4.74	46946
Convertible Mar 23	94 70	97 72	8.32	46938
World ex UK Index Mar 24	777.10	786.23	2.08	47887
Do Accum	777 10	786.23	2.08	47888
Japan Index Mar 24	486 98	494 42	0 87	47881
Do Accum	488 91	496.37	0 87	47882
USA Index Mar 24	1085 68	1098.23	2.88	47885
Do Accum	1131.88	1139.54	2.88	47886
Europe ex UK Index Mar 24	915 13	929.26	3.12	47879

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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Norwich Union Life Insurance Soc.–Contd.

Provident Mutual Life Assc. Assn.–Contd.

Scottish Amicable

Sun Alliance Group

Wesleyan Assurance Society

Windsor Life Assur Co Ltd

Providence Capital International Ltd – Contd.

Royal Life Intl. Ltd

J. D. Ward Financial Services Ltd

9 Kingsway, London, WC2 6XF 071-836 4321

	Bid Price	Offer Price	Yield Gross	City-line
J D Ward Mngd Bond	199 6	216 7	–	44591
J D Ward Mngd Pens	124 6	134 6	–	44592
Albany Life Acc	192 6	202 7	–	41721
Albany Pens Acc	246.8	259 8	–	41722
M&G Tricnt Pen Acc	179 9	189 0	–	47104
RBK Intl Gwth Equity	182.4	191.9	–	44795

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Money Funds

Pembroke Hall, Pembroke, Bermuda

Rothschild Asset Management – Contd.

Daily Dealings *Weekly dealing

Royal Bank of Canada Funds

RBC Offshore Fund Managers Ltd

PO Box 246, St Peter Port, Guernsey 0481 723021

Latest Fund Prices 24hr service 0481 718043

Sarasin Funds Mngmt (Guernsey) Ltd

PO Box 246, St Peter Port, Guernsey 0481 723021

Schroder Investment Mngmt (Guernsey) Ltd

PO Box 255, St Peter Port, Guernsey 0481 710651

GUERNSEY (REGULATED)(**)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

OFFSHORE INSURANCES

MANAGEMENT SERVICES

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at [illegible] cheap rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-[illegible]

CMI Fund Managers (IoM)

Equity & Law Intl Fund Mngrs Ltd

Gartmore Fund Managers (IoM)

Leopold Joseph Fund Mngrs (IoM) Ltd

Mercury Fund Managers IoM Ltd

Sun Life Management (IoM) Ltd

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)

CMI Fund Mngrs (IOM)

City Financial Admin (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Equity & Law Intl Fund Mngrs Ltd

Gartmore Fund Managers (IoM)

John Govett Management Ltd

IBI Global Funds Limited

Target International (Isle of Man) Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Brown Shipley Fund Mgmt (CI) Ltd

Capital House Fund Mgrs (CI) Ltd

Gartmore Fund Managers International Ltd

John Govett (Channel Islands) Ltd

Hill Samuel Fund Mgrs (Jsy) Ltd

INVESCO MIM International (Jersey) Ltd

Lloyds Bank (CI) U/T Mgrs

Midland Bank Fund Managers (Jersey) Ltd

Prudential Fund Managers (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd

TSB Trust Funds (CI)

JERSEY (REGULATED)

Barclays Intl Funds

Cater Allen Investment Management (CI)

Citibank (CI) Ltd "Citifunds"

EBC Trust Company (Jersey) Ltd

Emitlink International Mngt Ltd

Fidelity Investment (CI) Ltd

Fleming Group

Foreign & Colonial Mngmt (Jersey) Ltd

John Govett Management (Jersey) Ltd

INVESCO MIM International Limited

Management International (Jersey) Ltd

Minerals, Oils Res. Shrs. Fd. Inc.

Nat. Westminster Jersey Fd. Mgrs. Ltd

Rothschild Asset Mngt (CI)

Save & Prosper International

Scimitar Worldwide Money Fund Ltd

Scimitar Worldwide Selection Fd Ltd

Strongbow Kemp-Gee Mngmt. Jersey

TSB Trust Funds (CI)

Target Internat. Management (Jersey) Ltd

Tyndall International (Jersey) Ltd

Warburg Asset Management Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

Abbey Global Investment Fund (a)

Abtrust Fund Mngrs Luxembourg SA (a)

Aetna Intl Umbrella Fund (a)

Barclays Intl Funds (Luxembourg) Ltd

CMI Asset Management (Luxembourg) SA (a)

Commercial Union Luxembourg SA (a)

Commercial Union Luxembourg SA – Contd.

Den norske Bank

Dresdnerbank Asset Mngmt SA (a)

Eagle Star – Global Assets Fund (a)

EquiFund-Wright National Eqty Fd SA (a)

Fidelity Funds (a)

Fleming Group (a)

Gartmore Indosuez Funds

Gartmore Luxembourg SA (a)

Hill Samuel Inv Services Intl SA (a)

Hypo Foreign & Colonial Port Fd Sicav

Kleinwort Benson Japanese Warrant Fund

Kleinwort Benson Select Fund (a)

Lloyds Bank Luxembourg

Liberty ALL-STAR World Portfolio

Midland International Circuit Fund SICAV

Morgan Grenfell Investment Funds Ltd

Norwich Union Intl Portfolio (a)

Creveale Asset Advisors (Lux) SA (a)

Sarasin Group (Luxembourg)

Schroder International Selection Fd (a)

Templeton Global Strategy SICAV

Touche Remnant (Guernsey) Ltd (a)

Tyndall Global Fund SICAV

S.G. Warburg Asset Mgmt Lux SA (a)

Wardley Investment Services Lux SA (a)

LUXEMBOURG (REGULATED)

Alliance Capital

Asian Development Equity Fund

Credit Commercial de France

DWS Deutsche Ges. f. Wertpapiersp.

DVNA Cross Border Investments

Fidelity Intl Inv Mgmt (Lux) SA

Latin American Management Co Ltd (a)

Daiwa Japan Govt Fund

Europa Value Fund (a)

EurOptec (a)

Fidelity Investment (CI) Ltd

First Arrows Intl Bond Fund (a)

Fleming Group

Gartmore Luxembourg SA

Investissements Atlantiques SICAV

JC Global Fund SICAV

Lloyds Bank Luxembourg (a)

Merrill Lynch Asset Management

Nikko Bank (Luxembourg) SA

Nomura Asian Infrastructure Fd SICAV

Pacific Basin Fund

Rosenberg US Japan Mgmt Co SA (a)

Yamaichi 1992 Global Fund SICAV (a)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

ATSP Management Ltd

Abtrust Fund Mngrs (Guernsey) Ltd

Adig Investment

Aetna Malaysian Growth Fd (Cayman) Ltd

Alliance Capital

Asian Convertibles & Income Fd (Cayman)

Austro-Hungary Fund Ltd

BEA Associates

The Batavia Fund Ltd

Baring International Group

Bridge Management Ltd

Buttonfield Fund Management Co Ltd

Capital International

Chameleon Funds Limited

Citizens Investment Trust Mgt Co Ltd

Credit Lyonnais Intl Asset Mngt (HK) Ltd

Daiwa Intl Capital Management (HK) Ltd

Deutscher Investment-Trust

EBS Overseas Fund Ltd

Europe 1992

Fidelity International Ltd

Global Asset Management

Global Asset Management – Contd.

Global Government Plus Fund

Granville Management Limited

Group One Limited

Hemisphere Management Ltd

Jardine Fleming Unit Trusts Ltd

Jardine Fleming Inv Mngt Ltd

The Japan Capital Secured Trust

Korea Investment Trust Co Ltd

Lehman Brothers Sports Growth Fund

Lion Asia Ltd

Malaysia Capital Fund Ltd

Merrill Lynch Asset Management

Morgan Stanley Japanese Warrant Fund NV

National Investment Trust Company Ltd

North Star Fund Managers (Cayman) Ltd

Optima Fund Management

Orbis Investment Management Ltd

Orbitex Bahamas Ltd

ORIENT Growth Fd

PAM Futures Trading (Cayman) Ltd

PFC International Portfolio Fd Mgmt Ltd

PRS International

Pacific Growth Fund

Pakistan Fund

Petrus Fund Selection Limited

Portugese Investment Fund Ltd

Premium International Advisers Ltd

Pyrford International Mgmt SA Switz

Quilter International Management Ltd

Rothschild Asset Management (CI)

Royal Trust North American Bond Fd

Safra Republic Holding

Schroder Investment Management Ltd

Scudder, Stevens & Clark Inc

Shinsei Investment Mngt (Bermuda) Ltd

Societe Generale Group

Spinnaker Asia Limited

Taiwan Tracker Fund Limited

Templeton Galbraith & Hamberger Ltd

The Thai Development Capital Fd

The Thai-Euro Fund Ltd

The Thai Prime Fund Limited

The Thailand Fund

The Thailand Growth Fund

The Thailand Intl Fund Ltd

Thames Currency Fund Ltd

T. Rowe Price Associates, Inc

Thornton Investment Management Ltd

Three-Way Asset Allocation Fund

Trans Global Investments Ltd

Tudor BVI Futures Ltd

Tyndall International (Bermuda) Ltd

The Vietnam Fund Limited

Wardley Investment Services Ltd

Warrants Currency Fund Ltd

Wellington Fd Mgmt (Bermuda) Ltd

Wells Fargo U.S. IT Fund

Yamaichi Capital Management (Guernsey) Ltd

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES AND MONEY MARKETS

Dollar may rise

THE DOLLAR may rise on March economic data this week, while a number of other currencies come under pressure for a variety of reasons, *writes Andrew Jack.*

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

A batch of new statistics is due to be released in the US, including consumer confidence, National Association of Purchasing Managers and employment figures. These should provide some indications of the level of economic activity during March, compared with the data for earlier months released last week.

But Mr David Cocker, treasury adviser with Chemical Bank, is sceptical of the impact of the data.

He said the likelihood of the long-awaited interest rate cut by the Bank of Japan as part of a package to stimulate the economy was strong, and would help boost the Yen.

In Germany there may be continued uncertainty about the possibility of interest rate cuts, despite the harsh line taken by the Bundesbank in recent days.

In Italy, the lire is likely to come under pressure in advance of the election on April 5, as concern grows about the state of the existing political coalition.

In the UK, continued political uncertainty is likely to be fuelled with a series of new polls which continue to affect jittery markets. Mr Cocker stressed that the money markets and equities were more likely to be affected by the election than the exchange rate.

Mr David Coleman, treasury adviser to Canadian Imperial Bank of Commerce in London, said: "The market is getting fed up with opinion polls. Why take out a large position when you know it might be affected by big fluctuations? It is going to be nervous this week, and the nervousness will remain until the election."

£ IN NEW YORK

Mar.27	Close	Previous Close
£ Spot	1.7425-1.7435	1.7235-1.7245
1 month	0.91-0.89pm	0.94-0.93pm
3 months	2.73-2.70pm	2.77-2.75pm
12 months	9.32-9.22pm	9.20-9.10pm

Forward premiums and discounts apply to the US dollar

CURRENCY MOVEMENTS

Mar 27	Bank of England Index	Morgan** Guaranty Changes %
Sterling	90.2	-21.4
U.S Dollar	64.8	-13.1
Canadian Dollar	101.0	-1.2
Austrian Schilling	110.4	+12.5
Belgian Franc	111.7	-1.8
Danish Krone	109.1	+3.0
D-Mark	119.7	+25.0

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	FRIDAY MARCH 27 1992 US Dollar Index
Australia (69)	143.76
Austria (20)	172.96
Belgium (45)	137.51
Canada (115)	128.96
Denmark (33)	230.53
Finland (15)	77.89
France (106)	152.86
Germany (65)	117.82
Hong Kong (55)	208.43
Ireland (16)	158.62
Italy (77)	69.63
Japan (473)	105.70
Malaysia (68)	240.89
Mexico (18)	1758.47
Netherland (25)	149.51
New Zealand (14)	43.94
Norway (24)	170.24
Singapore (38)	203.76
South Africa (61)	228.00
Spain (51)	152.91
Sweden (25)	189.15
Switzerland (59)	98.99
United Kingdom (233)	170.11
USA (523)	164.87
Europe (808)	141.33
Nordic (100)	174.03
Pacific Basin (717)	110.43
Euro-Pacific (1525)	123.03
North America (638)	162.60
Europe Ex. UK (575)	123.39
Pacific Ex. Japan (244)	157.06
World Ex. US (1719)	125.47
World Ex. UK (2009)	134.74
World Ex. So. Af. (2181)	137.23
World Ex. Japan (1769)	156.03
The World Index (2242)	137.81

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities Limited. 1987
Amendments to indices for 23/3, 24/3 and 25/3 applied to Japan, related regional indices and The World Index. For further information please contact FT Statistics (Tel 071 873 4007). Constituent change with effect 30/3/92: Deletion: Steetley (UK).

FINANCIAL TIMES STOCK INDICES

	Mar 27	Mar 26	Mar 25	Mar 24	Mar 23	Mar 20	1991/92 High	1991/92 Low	Since Compilation High	Since Compilation Low
Government Secs.	85.63	85.93	86.14	86.02	85.94	86.06	88.55	82.17	127.4	49.18
Fixed Interest	98.75	98.99	99.35	99.15	99.11	99.20	101.66	90.59	105.4	50.53
Ordinary	1914.9	1938.3	1929.9	1926.2	1910.8	1916.5	2108.3	1606.3	2108.3	49.4
Gold Mines	119.6	120.6	121.3	121.6	123.4	123.4	222.8	116.0	734.7	43.5
FT Act All-Share	1176.13	1185.64	1181.92	1180.40	1173.47	1181.44	1284.07	987.46	1284.07	61.92
FT-SE 100	2447.9	2472.2	2464.9	2458.7	2441.0	2456.6	2679.6	2054.8	2679.6	986.9
FT-SE Eurotrack 100	1140.84	1146.25	1144.53	1142.88	1142.05	1153.93	1176.44	900.45	1176.44	900.45
FT-SE Eurotrack 200	1153.31	1161.65	1158.54	1157.61	1151.61	1162.99	1200.08	938.62	1200.08	938.62

LONDON SHARE SERVICE

BASE LENDING RATES

	%		%		%
Adam & Company	10.5	Credit Lyonnais	10.5	McDonnell Douglas Bnk	10.5
Allied Trust Bank	10.5	Cyprus Popular Bk	10.5	Midland Bank	10.5
AIB Bank	10.5	Dunbar Bank PLC	10.5	Mount Banking	10.5
● Henry Ansbacher	10.5	Duncan Lawrie	10.5	NatWestminster	10.5
B & C Merchant Bank	10.5	Equatorial Bank plc	10.5	Northern Bank Ltd	10.5
Bank of Baroda	10.5	Exeter Bank Limited	11	Nykredit Mortgage Bank	11
Banco Bilbao Vizcaya	10.5	Financial & Gen. Bank	11	Provincial Bank PLC	14
Bank of Cyprus	10.5	First National Bank Plc	14	Roxburghe Bank Ltd	11.5
Bank of Ireland	10.5	● Robert Fleming & Co	10.5	Royal Bk of Scotland	10.5
Bank of India	10.5	Robert Fraser & Ptnrs	11	● Smith & Williamson Secs	10.5
Bank of Scotland	10.5	Girobank	10.5	Standard Chartered	10.5
Banque Belge Ltd	10.5	● Guinness Mahon	10.5	TSB	10.5
Barclays Bank	10.5	● Hambros Bank	10.5	Unibank plc	10.5
Benchmark Bank	11	Hampshire Trust Plc	13.5	● United Bk of Kuwait	10.5
Brit Bk of Mid East	10.5	Heritable & Gen Inv Bnk	10.5	Unity Trust Bank Plc	10.5
● Brown Shipley	10.5	● Hill Samuel	10.5	Western Trust	10.5
CL Bank Nederland	10.5	C. Hoare & Co	10.5	Westpac Bank Corp	10.5
Citibank NA	10.5	Hongkong & Shanghai	10.5	Whiteaway Laidlaw	10.5
City Merchants Bank	10.5	Julian Hodge Bank	10.5	Yorkshire Bank	10.5
Clydesdale Bank	10.5	● Leopold Joseph & Sons	10.5		
Co-operative Bank	10.5	Lloyds Bank	10.5		
Coutts & Co	10.5	Meghraj Bank Ltd	10.5		

● Members of British Merchant Banking & Securities Houses Association.

AMERICANS

	Notes	Price £	W'k% change	Div gross	Dividends paid	Last xd	City line
Abbott Labs		38⅝ xd	2.0	$1.20	FeMyAuNv	10.1	1503
♥Allegheny & W.		327p	1.2	38c	–	–	–
Amdahl		986p	–1.9	10c	NvMrJeAu	31.1	–
Amer Cyanamid		35½	–4.1	$1.50	MrJeSeDe	4.3	–
Amer Express		13⅞ xd	6.2	$1.00	FeMyAuNv	30.12	1594
Amer T & T		23[illegible] xd	0.8	$1.32	FeMyAuNv	27.3	1587
Amentech		33¼	–2.9	$3.52	FeMyAuNv	28.3	–
BankAmerica		26[illegible] xd	2.5	$1.30	FeMySeDe	28.2	1744
Bankers NY		32½ xd	–1.3	$1.52	ApJyOcJa	27.12	1745
Bell Atlantic		24¼	–1.0	$2.52	FeMyAuNv	4.7	–
BellSouth		25⅝	–2.8	$2.76	FeMyAuNv	5.4	–
♥Bethlehem Steel		8¾ xd	–3.4	–	MrJeSeDe	8.2	1821
Bowater		1586p xd	–1.6	$1.20	OcJaApJy	9.3	1884
CPC		49⅝ xd	–2.0	$2.40	JaApJyOc	27.12	2263
California Engy		712p	–3.3	–	–	–	–
Campbell Soup	h	21⅞	–1.2	70c	OcJaApJy	24.12	2050
Chase Manhattan		14 xd	–2.8	$1.20	FeMyAuNv	24.1	2109
Chrysler		10¼ xd	–3.5	60c	ApJyOcDe	11.3	2135
Citicorp		10 xd	0.6	–	–	23.10	2141
Colgate-Palm		28½ xd	3.9	$1.05	FeMyAuNv	22.1	2184
Cont'l Bank		982p	2.3	60c	DeMrJeSe	31.5	–
Dana		22¼ xd	4.6	$1.60	MrJeSeDe	25.2	2306
Data General		595p	–4.5	–	–	–	–
Dial		22⅜ xd	–3.2	$1.12	JaApJyOc	20.3	2778
Dun & Brad		32⅞	–	$2.16	MrJeSeDe	13.2	–
Eaton		44	–1.1	$2.20	FeMyAuNv	2.2	2410
Echlin		10⅝ xd	–1.7	70c	JaApJyOc	30.12	3046
FPL		19[illegible] xd	–3	$2.40	MrJeSeDe	26.2	–
Fluor		23⅝ xd	–3	48c	JaApJyOc	19.3	2609
Ford Motor		22[illegible] xd	–1.9	$1.60	MrJeSeDe	28.1	2615
Gen Elect		44[illegible] xd	–2.9	$2.28	JaApJyOc	4.3	2675
♥General Host		538p	7.8	34c	–	13.12	–
Gillette		27[illegible] xd	0.2	82c	MrJeSeDe	28.1	2695
Hasbro	h	14⅜	–5.7	13.3p	JaApJyOc	1.8	–
[illegible]							

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

Kells Mnia IE	3	29	–	–	–		–3741
Moanmore	4½	—	–	–	–		–1483
Navan Res IE	24	—	–	–	–		–1180
Northgate Expl C$ s	37	–2.6	–	–	–	10 77	–
North West Expl A$	2½	25.0	–	–	–	–	–
Oryx Gold S	78	—	–	–	–		–3586
Ovoca Gold IE	10	—	–	–	–		–1478
Plateau	5	—	–	–	–		–3407
RTZ q	[illegible]	1.7	18.6	1.5	Dec Jul	23.3	[illegible]
Vizcaya	2	—	–	–	–		–4193
Western & Pac C$	17	25.9	–	–	–	–	–
Young Grp	36	–22.2	5.2	1.6	May Oct	2.9	[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution, this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays (except for Investment Trusts and British Funds).

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock *Exchange Automated Quotation* system (SEAQ), and non-UK stocks which are quoted on SEAQ International.
- ● "Tap Stock"
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♠ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a).
- ✚ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress.
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ▲ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. [illegible] i Indicated dividend; cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax.

z Dividend includes a special payment. Cover does not apply to special payment. [illegible] K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1991-92.

[illegible] T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: [illegible] xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Lloyds Smith, Cox Package Units, Do Dividend, Do Capital (Section Inv Trusts) and Kymmene (Packaging & Paper).

Deletions: Kemp (PE) (Hotels & Leisure) and Trevian (Properties).

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices March 27

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
38½	31	Bk Bostn P	3 12	8.2		11	38¼	37⅞	37⅞	−⅛
20½	11⅝	Bank Bostn	0 40	2.2	27	6341	18	17⅝	17⅝	−⅛
41⅛	30	Bank New Y	1.52	3 8	30	2905	39⅛	38⅞	39½	+⅛
48⅞	43⅞	BankAm A	3.25	7.4		28	44⅛	44	44⅛	
79½	72¼	BankAm B	6 00	8 0		12	75⅝	75⅛	75⅞	−¼
66½	55⅜	Bankers Tr x	2.80	5 1	7	1169	55⅞	d55	55	−1
29½	23	Barcls ADR x	1 76	7 6	12	54	23	d22⅞	23	−½
34	26⅛	Bard (C R)	0.48	1 8	25	1356	27⅞	27¼	27⅞	−⅛
36½	33⅛	Barnes Grp	1 40	4.2	12	2	33⅛	33½	33½	−½
37½	31½	Barnett BA	1 32	4.1	18	1091	32⅛	31⅞	32	
6⅛	4⅞	Baroid	0.20	3 8	15	3494	6⅛	5⅛	6⅛	+⅛
8⅞	7	Battle Mt	0 10	1.4	737	794	7⅞	7⅛	7⅞	+⅛
60¼	47¼	Bausch Lmb	0.80	1 7	33	1226	48⅛	47⅛	47⅞	−⅛
50⅝	43½	Baxter Prf	3.15	6.3		30	49⅞	49⅞	50	+⅛
40½	32⅛	Baxter	0 86	2 4	17	2543	36½	36⅛	36⅛	−½
24⅛	21⅞	Bay St Gas	1 34	6 0	15	115	22⅝	22⅛	22⅛	−⅛
23⅛	21⅝	Bd Tr 1898	1 83	8.0		27	22⅞	22⅝	22⅞	+⅛
20⅞	16⅞	Bear Strns	0.60	3 3	8	3617	18¼	18	18¼	−⅛
46	43⅞	BearStPfA x	3.13	6.8		z100	u46	46	46	

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng
82¼	69⅞	Xerox	3.00	4.1	14	2120	74⅛	72⅞	73	-1⅛
59½	50½	Xerox4.125				z100	52	52	52½	+½
28½	24¾	Xtra 1.94	1.94	7.2		18	27⅛	27	27	-½
37	28½	Xtra Corp	0.80	2.3	14	44	35⅛	35	35	-⅛
27	23¼	Yankee Egy	1.00	4.0	12	157	25⅛	25⅛	25⅝	+⅛
1⅞	½	Zapata			31	358	1⅛	1⅛	1⅛	+⅛
11½	7¼	ZenithElec			5	243	9⅛	9⅛	9⅛	-⅛
17¾	14½	Zenith Nat	1.00	6.1	7	31	16⅝	16⅛	16⅝	+⅛
6⅞	6	Zeuix Inc x	0.86	12.8		114	u6⅞	6⅝	6⅝	+⅛
13¾	11⅛	Zero Corp	0.40	3.1	19	144	13	12⅞	12⅞	
38	34¼	Zurn Ind	0.88	2.4	16	281	37½	36⅛	36⅛	-⅞
14⅛	12¾	Zweig Fund	1.16	8.8		238	13⅞	13⅛	13⅛	-⅛
11	9⅞	Zweig Tot	[illegible]	[illegible]		548	10½	10⅜	10½	

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices March 27

NASDAQ NATIONAL MARKET

4:00 pm prices March 27

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		27	3423	27½	26½	26¼	-1
Xoma Corp		11	8872	20½	d19½	19⅝	-⅝
Yellow Fr	0.94	[illegible]	[illegible]	29¼	27½	27⅝	-1½
York Res		[illegible]	[illegible]	5½	4⅞	5	-¼
ZionsUtah	1.44	10	77	u49½	48¼	48½	-⅜

MONDAY INTERVIEW

Gambler's biggest risk

Tony Ryan, chairman of GPA, the aircraft-leasing company, talks to **Paul Betts**

'An aircraft as an asset is inherently profitable'

Most men carry a wallet in their back pocket. What Mr Tony Ryan keeps in his is a schedule of spending commitments totalling $20bn over the next 10 years.

"This is the list I live with," he says, pulling out a tiny piece of paper showing that GPA, the aircraft-leasing company he founded in Shannon, Ireland, 17 years ago, currently owns 411 airliners and has another 500 on firm order or option.

The numbers are staggering, and send shivers through investors at a time when the air transport industry is suffering its worst recession in 40 years. Airlines are struggling to make money and financial institutions are increasingly wary of funding new aircraft purchases.

Mr Ryan says he is relaxed. "I often tell people I sleep like a baby. I wake up every 10 minutes screaming."

Mr Ryan will need all his apparent confidence as he embarks on perhaps his greatest challenge since launching GPA as a small aircraft leasing outfit and transforming it into the world's leading aircraft leasor with about 50 per cent of the market. Not only is he having to ride out turmoil in the aircraft industry, but he has also chosen this moment to float his company.

His decision is based on GPA's performance last year. "I did not welcome 1991 when we were hit by a series of circumstances we never predicted, like the Gulf war," he says. "But it also offered us an opportunity to show how we operate. I told my staff at the time that if we can work out of this recession it will be a great way of convincing investors we can manage risks well."

The company's performance, though disappointing when compared with its earlier double-digit profits growth, has been better than might have been expected. GPA recently reported slightly higher net profits of $196.6m for the nine months to the end of December 1991 compared with $195.8m in the same period in 1990.

The financial markets will still need considerable reassurance if the flotation in June is to be successful. "It's not so much GPA but the state of the industry which concerns me," says Mr Keith Hodgkinson, aerospace analyst at Shearson Lehman. "The question is whether they can buck the trend in a business facing a lot of problems," he adds.

According to an Airbus executive, the recession was expected to hit aircraft-leasing companies harder than others in the industry: they would have too many aircraft and too few customers.

Other observers point to a string of further worries: the question of how GPA would finance future aircraft purchases as banks grow more reluctant to provide funding; the quality of the company's earnings in the light of its heavy dependence on profits arising from aircraft sales in the secondary market; and whether its equity base is strong enough in relation to its huge, long-term aircraft order commitments.

Mr Ryan, who describes himself as "just a Tipperary farmer", will have a lot of explaining to do in coming weeks.

"If people are frightened by our order book they should take comfort. We placed 165 aircraft last year in the worst ever period in aviation," Mr Ryan says. He concedes that GPA is a difficult company for analysts and investors to understand but that aircraft are inherently more attractive assets than tankers or property.

"My fundamental belief is that an aircraft as an asset is inherently profitable. If a client has a problem, you can move the asset elsewhere. The mobility of the aircraft is a great joy," he says.

But he acknowledges there is likely to be a "heavy fall-out" in the aircraft-leasing industry, while stressing that GPA will not be a casualty. "We've built up a robust structure. Our fleet is made up of new aircraft. If we had 400 old ones we would not be going public and we probably wouldn't be going anywhere."

GPA took a calculated risk in its aircraft-buying spree of the late 1980s, though it managed to negotiate 20-25 per cent discounts from manufacturers because of the big orders. "We've sculptured our orders from now to the end of the century to mirror the customer base of the big manufacturers," Mr Ryan says. Airlines have over-ordered aircraft in recent years and manufacturers have over-produced, so manufacturers are now reducing production by 25-33 per cent.

"We traditionally pick up about 8-10 per cent of annual production. When production is adjusted we will go down to about 10 per cent of the new rate," Mr Ryan says.

The biggest problem is not too many aircraft but not enough financing. "Money rather than aircraft will be the scarce commodity of the 1990s," Mr Ryan says, adding that GPA has tackled the short-term problem with a line of credit facilities worth $8bn, equity of $1.2bn and its forthcoming public offering which is expected to raise between $550m and $700m in fresh money.

PERSONAL FILE

- **1936** Born in County Tipperary, Ireland.
- **1956** Joins Aer Lingus.
- **1975** Forms GPA in conjunction with Aer Lingus and Guinness Peat Group.
- **1979** GPA buys first aircraft.
- **1987** Honorary doctorate, Trinity College Dublin.
- **1988** Ryan buys 4.9 per cent stake in Bank of Ireland.
- **1989** GPA orders 308 aircraft worth $16.8bn.
- **1991** Ryan sells Bank of Ireland stake.
- **1992** GPA flotation.

"In the longer term we are going to have to find some other method of financing until the banks come back because of the magnitude of money necessary to finance aircraft during the next 10 years," Mr Ryan says.

He first planned the June flotation five years ago with the idea of going to the market in 1990-91 to give greater liquidity to his shareholders. But he decided to wait until this year after the company had shown it was capable of riding out last year's sharp downturn.

Mr Ryan believes the securitisation of aircraft will become a growing trend. "What we are increasingly doing is buying an aircraft, selling it to a customer for a profit. He is then entitled to the lease income while we get a fee for managing the aircraft. At the end of the lease we can either sell the aircraft and share the proceeds with the owner or release it for him."

He forecasts a further development will be the setting up of aircraft investment funds to attract smaller investors. "We are setting up with Citibank a $500m international fund for this purpose," he says. "We've got smaller funds in several countries. We also have plans for a $1bn fund."

He says the geographical spread of GPA's portfolio has also helped the company hedge itself during the recession. "The first six months of last year were very rough. About 25 per cent of our customers were in serious trouble." But the other 75 per cent around the world "continued to send money in: there was good traffic in places like south-east Asia and Latin America".

Mr Ryan admits, however, that GPA took a a few blows on the chin. "We clearly gave Braniff (the bankrupt US carrier) too many planes and we lost money." But GPA has limited its exposure to the US market to 10 per cent of its business. "I was never comfortable with the draconian US bankruptcy laws," Mr Ryan says.

Preferring to scout the world in search of business, or to farm his estate in Tipperary where he owns a pub called Matt the Thrasher, rather than adopt a high public profile, Mr Ryan will find himself in the spotlight in coming months.

He will have to persuade investors that GPA is a good long-term bet and that the sheer quantity of aircraft it has on order are sound assets. "The question is whether you believe flying by aircraft is the best way to get from A to B. If the answer is no, I would have a problem," he says.

His family history leads to his firm beliefs. "My family has been in the transport business for 1,000 years." This is a slight exaggeration. His father was a train driver, his grandfather a station master, and his two sons now own the airline Ryanair.

Perhaps the best message he can give the financial community will be his commitment to stay at GPA as chairman at least until 1996 and not sell his shares. At a flotation price of $20-$25, Mr Ryan's 8 per cent stake would be worth $158m-$235m. "But since we started, I have never sold a share."

The Irish tax authorities pose a bigger personal problem. The new Irish government's tax regime is ending exemptions on dividends to shareholders like Mr Ryan in Shannon-registered companies. Mr Ryan confirms he is considering becoming a foreign resident. "I have places in Spain, Mexico and Monte Carlo," he says. As an expert risk manager, he might even be tempted to try to break the bank.

Why Jerry Brown is so popular

MICHAEL PROWSE on America

I confess to a sneaking admiration for Mr Jerry Brown's presidential campaign. I should not say this because the former governor of California is deeply unpopular in left-leaning political circles in Washington. The pundits who count regard him as an unscrupulous and unelectable crank. They hate him for mercilessly exposing the character weaknesses of their "anointed" candidate, Mr Bill Clinton, the Arkansas governor. And they are shocked by some of his policies – such as his advocacy of a flat rate income tax.

Mr Brown may have been inconsistent over the years. But the central point he is making today – that economic and social reform is impossible so long as politicians are bought and sold by rich individuals and powerful interest groups – is surely of vital importance. US politics is horribly corrupted by money: the average senator has to raise $4m to defend his seat.

Mr Brown has courageously restricted campaign contributions to $100 a head. He has dispensed with the pomp of a campaign such as Governor Clinton's, which includes hordes of paid advisers and pollsters – not to mention a posse of secret service agents. Mr Brown, once a Jesuit monk, relies on a skeleton staff of volunteers, sleeps at the homes of supporters and appeals to the public mainly through a free 1-800 telephone number. According to the conventional rules, this should have spelled oblivion. Instead, the Brown campaign is gaining momentum, having defeated Mr Clinton in Connecticut last week.

At first blush, Mr Brown's advocacy of a 13 per cent flat rate tax on personal incomes and business value-added appears a crass error. It turns traditional Democrat fiscal theory on its head. Most Democrats are obsessed with the need to reverse the Reagan tax cuts, which favoured the rich. Mr Clinton, for example, has made redistribution in favour of the middle classes a central theme of his campaign. The Washington Post dismissed Mr Brown's plan as "cruel and reactionary". Mr Michael Kinsley, a liberal columnist for the New Republic magazine, described it as "brain dead".

Yet in some ways Mr Brown's iconoclasm is admirable. After all, here is a Democrat proposing something that even former President Ronald Reagan, a fellow Californian, lacked the courage to implement. In the mid-1980s, the Reagan administration considered a flat rate tax, but decided it was politically too risky because it would shift too much of the tax burden onto the poor and middle classes.

Some pundits say Mr Brown does not understand the implications of his plan. This seems unlikely: Mr Brown may be eccentric, but he is not stupid. He has also experienced a baptism of fire in fiscal affairs. As governor of California in the late 1970s he initially opposed – but was later forced to support – the Proposition Thirteen property tax revolt. He would not be advocating a flat rate tax today unless he felt it would appeal to the majority of Americans. Critics should remember that he has a knack of anticipating public opinion: a couple of decades ago, he was one of the first US politicians to take environmental arguments seriously.

Mr Brown rightly emphasises the simplicity of flat taxes. In TV debates, he tells the audience that his plan would replace voluminous tax returns with a postcard-sized form that children could complete. Grinning, he says he would put hordes of lawyers and accountants out of business. He is on less solid ground when he claims that high earners would enjoy only modest gains because the transparency of the new rules would prevent them exploiting loopholes. The rich would gain substantially from flat rate taxes, just as they gained from cuts in the top rates during the 1980s.

If Mr Brown has any sense, he will backtrack a little and offer larger exemptions for those at the bottom of the income distribution (his scheme already allows for the deduction of rent – an important *quid pro quo* for the huge mortgage interest deductions allowable for the highest earners). But he may be shrewd in guessing that the politics of envy is losing its bite. The world is changing so fast that it may be wrong to assume that electorates will always support redistribution through the tax system, which is anyway a surprisingly recent innovation.

It is not so long since somebody as level-headed as John Stuart Mill could describe progressive taxation (taxes that rise more than proportionately with income) as a "mild form of robbery". Prussia introduced the first progressive tax only in 1891; the US did not follow suit until 1913. Within 30 years, the US top rate had reached 91 per cent. But the tide began to turn fairly quickly. From the late 1950s, reformers were arguing for lower marginal rates to boost incentives. President John Kennedy cut the top US rate to 70 per cent in the early 1960s. During the 1980s, top rates plunged almost everywhere.

By advocating flat rate taxes, Mr Brown is thus only extrapolating a recent trend. Once again, this derided devotee of Zen Buddhism may have glimpsed the future before the rest of us. If so, he is laying the ground for a politics that cuts through party lines. Mr Brown is green, favours low, simple taxes, supports national health insurance, and wants to cut the nexus between money and politics in the US. You may distrust the messenger, but the message is undeniably potent.

Going down in flames

IAN DAVIDSON on Europe

The sensational collapse in popular support for the governing Socialist party in the French regional elections a week ago has opened up a national political crisis to which there is no obvious solution. There is no obvious solution because the acuteness of the apparent crisis, as expressed in the violent dislocation of voting patterns, seems irrational and disproportionate, in relation to the observable facts in the real world.

It is common to explain the election result as a classic protest vote. Circumstances conspired to turn the minor event of the elections to 22 regional councils into a national test of opinion, with the maximum scope for free expression, in the therapeutic or play-group sense of the term. The voters were angry about unemployment, or immigration, or Europe, or the financial scandals in the political parties; so they let rip with infantile ill temper and disillusionment.

Yet the intensity of this French protest seems out of all proportion with what they have to protest about. The vote implies that France is the worst governed country in Europe; in fact the French are as well governed as anyone, and better off than most.

In economic management terms, the Socialists' recent record is more than honourable. French economic growth is significantly better and more consistent than Britain's, French inflation is regularly much lower, and France is much more prosperous.

No one would deny the pain of high and rising unemployment; but French unemployment is in the same ball park as Britain's. The same goes for immigration. The school system is vastly superior, and the health system is ruinously luxurious. In comparative terms, France's problems simply do not justify this degree of anguish.

Some French analysts have taken a stern moral line. Some of them blame the politicians: the French voted to reject all the traditional parties of government, because they are nauseated by the stench of corruption. Others blame the French people: the scandalous National Front vote marks the French as the black sheep of Europe, in the same shameful league as the Austrians.

Neither thesis will quite do. A Figaro exit poll said that many more people (41 per cent) were influenced by their revulsion at the political scandals than by high unemployment (24 per cent). But a Libération poll said unemployment was the top factor for 38 per cent, while the scandals only influenced 12 per cent. You pays your money...

The thesis of a rotten streak in the French body politic is troubling. History testifies to a resilient extreme right-wing strand in France; there have also been periods of violent anti-Semitism and xenophobia. These two tendencies reached a shameful acme in the Second World War, when Vichy France fell over itself to co-operate with the Nazis. But to infer from last week's elections that there is a moral flaw in the heart of France is going too fast.

The National Front vote is a symptom of political disturbance: it does not mean France is going fascist. More than 40 per cent admit to racist feelings; yet France is clearly ashamed of half-buried memories of episodes in its history, and it is striking how often the media dig up skeletons, such as the practice of torture in the Algerian war, or the brutal deportation of Jewish children to Germany in the Second World War*, manifestly for purposes of expiation.

The central revelation of the election is the collective rejection of all the traditional parties of government. All polls say that French politicians seem aloof and elitist, talking a wooden, bureaucratic jargon. Their corruption may be distasteful; what is really alienating is their self-satisfied Parisian remoteness.

But the politicians' failure lies more in their policies than in their style. The Socialists have abandoned socialism; they have yet to devise a new message. The conservatives have only one message: Get Rid of the Socialists.

The reasons for this policy vacuum lie in the European Community. Macroeconomic policy, the traditional centre-piece of political debate, whether in a left-right context or in a Keynesian-classical dialectic, has been removed from the control of national politics. Mainline French politicians scarcely discuss economic policy, because there is nothing much left to discuss.

As a result, the Community has shaken the perceived political legitimacy of the nation state. This is especially destabilising in France, which is founded on an intensely normative image of the commanding state and the integrationist republic. Last Sunday, 27.2 per cent voted against Europe, or 41.1 per cent if you include the ecologists.

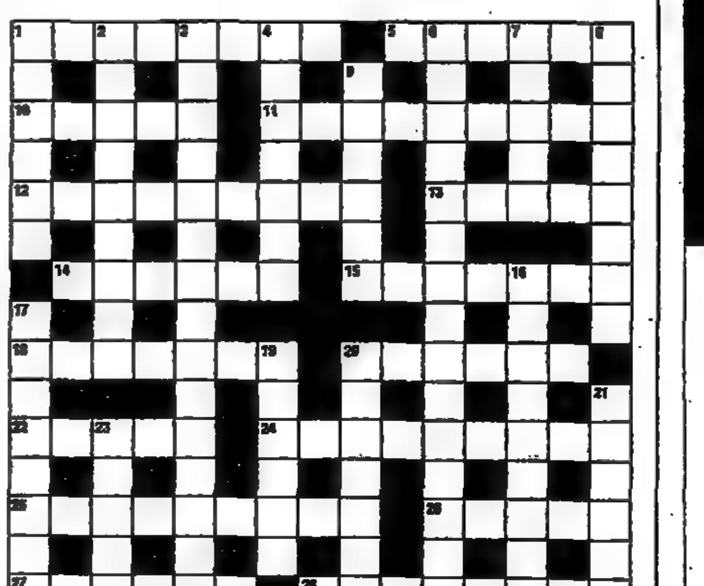
President François Mitterrand will go down in history as a great European. But he will go down in flames at home, unless his party can devise a new political message which recreates national legitimacy in a European context. And the first priority in that message will be a plausible answer to unemployment; socialism may be discredited, but the Community will not last long if unemployment is once again regarded as an Act of God or of Adam Smith.

**Sans Oublier Les Enfants, Eric Conan, Grasset 1991, FFr98.*

JOTTER PAD

CROSSWORD

No.7,811 Set by GRIFFIN



ACROSS

1 To work within required figure is the custom (8)
5 Posts scene filmed on board (6)
10 Ladies bearing warning sign (5)
11 Bird taking duty-free back, say (9)
12 Safely hidden from scene on CD manoeuvres (9)
13 Rest left after giving support for artist (5)
14 Fate of Mike's woolly hat, eventually! (6)
15 Night the RSC will be performing? (7)
18 Punishment some misshapen ancestors suffered (7)
20 Rip out overhead railway by convent (6)
22 Loathing platform without piano (5)
24 People always aiming for the bull? (9)
25 Threatening one member with death (9)
26 Dismissed party is overcome (5)
27 Sign on hospital student is entering (6)
28 Since travelling around flog case (8)

DOWN

1 Colour of seat better half wanted (6)
2 Notice girl has one on for confession (9)
3 Instructions given on tablets? (3,12)
4 One imitating spiteful woman is after something newsworthy (7)
6 Persons rowing who were brought to book (5,3,2,1,4)
7 After weekend American cheat admitted seeking glory (5)
8 Les, that new youth leader's furtive! (8)
9 Trust direct negotiation (6)
16 In favour of obtained number being disregarded (9)
17 Fitting it in model, pop back first (8)
19 Involve volunteers in queue standing up (6)
20 Pattern using softly spun angora (7)
21 Since man, if not inside, is on land (6)
23 After 1 pm turned up with the local force (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday April 11.

FINANCIAL TIMES SURVEY

REPUBLIC OF SLOVENIA

SECTION III

Monday March 30 1992

The tasks facing the Slovenes are awesome. But there is little doubt that the benefits of their freedom and independence far outweigh the endless, and costly, compromises made under the previous federal communist system. **Judy Dempsey** reports on some of the difficulties

Pragmatism still prevails

FLASHBACK: June 26 1991: Border guards hoist the new Slovenian flag at the Sentilj border station on the frontier with Austria

AFTER centuries of living under the Hapsburgs, and decades under communist rule, Slovenia regained its independence on January 15 this year when it finally won recognition by the international community.

Slovenia's struggle for independence, whether – at an earlier period of history – from Vienna, or from the Yugoslav federation, was not based on the politics of recalcitrance or rebelliousness – or driven by a fiery devotion to a nationalist cause.

Before declaring independence last June following a republic-wide referendum, Slovenes, in their pragmatic way, had attempted to find a modus vivendi with the status quo in Belgrade, federal capital of the former Yugoslavia and the capital of Serbia.

Pragmatism, flexibility and more than a tinge of stubbornness have long characterised this industrious and hard-working community, and have shaped the nation's relations with the more powerful neighbours it was obliged to live with in the Yugoslav federation.

Even over the past two years, when efforts to save the federation from disintegration – it was by then already slipping deeper into political and economic crisis – had all but failed, the Slovenes attempted to salvage what remained of Yugoslavia by proposing a confederation of sovereign states.

When these attempts were blocked by the republic of Serbia and the federal army, the Slovene government, elected in April 1990 in the republic's first free parliamentary elections for many decades, chose the road to independence.

For the Slovenes, a small nation of 2m people, it was a matter of survival. Its trade with the other republics of Yugoslavia was being blocked by Serbia; its contributions to the federal budget were being squandered; its citizens' foreign exchange deposits were financing the federal defence establishment.

The first days following the declaration of independence on June 25 will be indelibly marked on the consciousness of the republic. During that night, in the course of which young and old Slovenes celebrated their independence in the streets of the Slovene capital of Ljubljana, the Yugoslav federal army, or People's Army, crossed into Slovenia in an attempt to gain control over the republic's external borders.

After several days fighting against a well-prepared Slovene defence force, a demoralised federal army retreated but turned its attention – and much greater fire power – on neighbouring Croatia, which had also just declared its independence.

Slovenia has had a mere 10 weeks in which to feel secure in its independence, since recognition of its sovereignty was granted – by most countries but with the notable exception of the US – on January 15.

Making a reality of that independence is an historic task.

While Slovenia and the countries of eastern Europe share the same difficulties in making the transition to the market economy and political pluralism, it also has to establish its own institutions of independence from the Yugoslav federation.

These include consolidating a new monetary system, stabilising control over its borders, establishing its own postal service, setting up its own banking system and communications network, and funding and training a diplomatic service.

Independence also involves negotiating membership of international organisations such as the United Nations, the IMF, the World Bank, the European Community and the Conference on Security and Co-operation in Europe, as well as a host of other institutions through which independence can be strengthened. But while the tasks facing the Slovenes are awesome, there is little doubt that the benefits of freedom and independence far outweigh the endless, and costly, compromises made under the previous, communist federal system.

Economically, Slovenia, has for the moment lost its market share in the former republics of Yugoslavia, which previously accounted for more than 30 per cent of exports and imports. Slovene economists believe, however, that economic relations with these republics will eventually be normalised.

Foreign investors are already seeking access to markets in the former republics of Yugoslavia by setting up joint ventures in Slovenia. They see that the republic's small market can be compensated by using Slovenia as a stepping stone into the other republics, into eastern Europe, and into the Commonwealth of Independent States.

But in order to attract foreign investment, the fragile six-party coalition government, which consists of Christian Democratic, Liberal, and Social Democratic parties, will have to prove it is competent and capable of drawing up legislation on privatisation, and foreign investment, and of restructuring the banking system.

The government has been slow in drawing up legislation. One of the reasons is that the Slovene authorities agreed last July to suspend implementation of its independence declaration. This decision was part of the European-Community brokered Brioni peace accord which aimed at finding a solution to the federal army's attack on Slovenia.

In return for a three-month moratorium on the implementation of Slovenia's independence, the federal army, within that three months, agreed to withdraw completely from the republic.

The other reason for the slow pace of change is that the coalition government has inherited the former communist system of large cabinets. The present one, consisting of 27 ministries, is repeatedly criticised by economists and bankers for lacking co-ordination and a strategy for the economy. The former communist system has also slowed up decision-making. Legislation is often blocked, or watered down, as it passes through the three-chamber parliamentary system. This cumbersome system has almost paralysed the work of the government.

Finally, the coalition government has little expertise and experience. It is led by Mr Lozje Peterle, the prime minister who is also leader of the Christian Democrats. His critics say he is more preoccupied with restoring what he terms the "dignity" to politics, and restoring the power of traditional conservative forces in Slovene society, than opening up new enterprises and attracting foreign investors. The business community, foreign partners and the Slovene electorate are becoming impatient for change.

The Bank of Slovenia, or central bank, which is implementing a tight monetary policy, wants the government to stem the growing impatience and disillusionment by breaking down monopolies, encouraging private enterprise and maintaining a freeze on wage increases.

The central bank believes that the successful implementation of these policies would curb inflation, now running at more than 10 per cent a month, and stimulate growth. Industrial production, compared with last year, is this year expected to fall by 4 per cent to 15 per cent because of the war in neighbouring Croatia and the loss of markets in the former Yugoslavia. Unemployment is expected to rise by 2 per cent to 10 per cent.

Few economists doubt the need for a speeding up of the economic reforms. At the same time, they – and ministers from across the political spectrum – argue that the process of transforming post-communist societies must take into account Slovenia's political culture and traditions.

With the support of the agrarian community, the Christian Democrat movement is anxious to invoke and promote traditional values of the family and women, giving the Roman Catholic church more prominence in social and public life and encouraging women to have more children, rather than joining the labour force. These traditions are tempered by liberal and social democratic values which find wide support among the younger, urbanised population.

But unlike many of its east European counterparts and neighbours of the former Yugoslavia, the Slovene government has not allowed the paraphernalia and symbols of nationalism to prevail over pragmatism. Instead, the work carried out by the central bank, the agency for privatisation and the enterprises, serves to reassure the international community and foreign investors that Slovenia is stable. But if that confidence and stability is to remain a permanent feature in this part of Europe, Slovenia will need access to experts, credit facilities and markets. They will secure Slovenia's place in the new Europe.

IN THIS SURVEY

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☐ Editorial production: Phil Sanders

☐ DEBT: Relations with the former Yugoslav central bank must be settled, writes **Judy Dempsey**

EC-sponsored talks may help resolve problems

SLOVENIA'S economic prospects would improve significantly if it could settle its relations with the former National Bank of Yugoslavia (NBY), or central bank, establish new relations with foreign creditors as rapidly as possible; and join the International Monetary Fund and World Bank.

Relations with the NBY are complicated. Before Slovenia declared independence, any foreign exchange deposits which Slovene citizens deposited in banks in Slovenia were transferred to the NBY. These deposits amount to $1.2bn.

In addition, Croatian citizens in neighbouring Croatia also deposited $465m into Slovene banks in Croatia.

Since independence, these accounts have been frozen. Officials at the Ljubljanska Bank, Slovenia's largest bank, into which the majority of the foreign exchange accounts were originally deposited, are hoping that the the government of Slovenia will guarantee these debts and open up negotiations with the NBY for the eventual return of the deposits.

Mr Marko Kranjec, vice-governor of the Bank of Slovenia, or central bank, reckons Slovenes will have to wait years before they can obtain their foreign exchange savings. He says much depends on the negotiations and political atmosphere between Ljubljana and Belgrade. Slovene officials are also anxious to start negotiations on the unallocated Yugoslav federal debt.

The federal debt totals $14.6bn. Of this amount, Slovenia accepts that its allocated share of that debt is $1.8bn. "We will not renege on repaying this debt," said Mr Andrej Klemencic, adviser to Slovenia's Ministry of Finance.

The debt-service ratio is about 40 per cent of Slovenia's GDP. Last year's GDP amounted to $13.5bn.

Mr Jose Mencinger, a member of the board of Slovenia's central bank, said servicing that debt should not be a problem. "Last year, our exports totalled $3.8bn. That is a decline of only 5 per cent compared to the year before. So, we are not in such a bad position with regard to servicing the debt," he said.

However, negotiating what share of the unallocated federal debt Slovenia should assume is already proving difficult.

The unallocated federal debt – which consists of loans to the NBY, or the federal government which had not been specifically earmarked for projects in any of the six republics of the former Yugoslavia – amounts to $3.5bn. Slovene officials say they are committed to repaying its share of the unallocated federal debt.

Mr Kranjec says that the Bank of Slovenia has already proposed negotiations on this issue, as well as trying to discuss the status of the NBY'S foreign exchange reserves, the clearing balances with the countries of the former CMEA socialist trading organisation, and operations of banks.

"This is going to take a long time to settle," said Mr Kranjec. He and other Slovene economists now believe that the European Community-sponsored peace conference on Yugoslavia could play a role in negotiating issues related to the debt. Resolution of these issues, and recognition by the US of Slovenia, would speed the republic's admission to the International Monetary Fund and other financial institutions.

Judy Dempsey examines the economy

Independence costs

SLOVENIA is in recession. But unlike the other former communist countries of eastern Europe which have been plunged into recession because of the radical transformation of their economies, the reasons for the recession in Slovenia are different.

The political crises in the former Yugoslavia have greatly contributed to the republic's current economic circumstances.

Traditionally, Slovenia's economy was more developed than those of the other five republics. It had the highest standard of living and consistently higher growth in industrial production and GDP. But this small republic of 2m people was in no position, either politically or economically, to insulate itself from the economic crisis which plagued the entire federation throughout the 1980s.

Ante Markovic: too late

In the mid-1980s, the Yugoslav economy was stagnating. Industrial production was falling by 15 per cent a year, unemployment had reached 19.8 per cent by the end of 1990; the average inflation rate had increased from 20 per cent between 1974 and 1980 to 2,600 per cent in 1989; real wages had fallen to two-thirds of those in 1979.

Inter-republic differences had also been increased. The gap in GDP between Slovenia and the southern province of Kosovo widened from 5:1 in 1955 to 7:1 in 1988. Attempts to introduce market reforms by Mr Ante Markovic, the former federal prime minister, came too late to avert the violent political and economic disintegration of the federation.

In a recent paper*, Mr Jose Mencinger, a professor at the University of Ljubljana, argued: "The political developments deprived Yugoslavia of all systemic advantages from a swift transition [to the market economy].

"The differences between the 'west' and the 'east' [among the republics of Yugoslavia] became an unsurmountable barrier for the implementation of systemic changes, and for a sound economic policy. In such circumstances, the prices of "secession" [by Slovenia] became lower than the economic and social costs of sharing the Yugoslav chaos."

Few economists and government officials in Slovenia have doubts about the economic costs of independence. About 30 per cent of the republic's exports were earmarked for the former Yugoslavia, and about 28 per cent of its imports were from the other republics.

But the political disputes and economic blockades between the republics, and the war in neighbouring Croatia, the breakdown of the Yugoslav federation's transport and distribution networks, together with the introduction of new currencies in the republics, have reinforced the view among Slovene economists that its government must introduce an economic strategy.

The economists want this strategy to focus on introducing *privatisation, attracting foreign* investment through new legislation and incentives, finding and targeting new, hard currency export markets, and *normalising* its economic relations with the former republics of Yugoslavia.

Parallel to adopting a national strategy, economists want the government to focus more sharply on addressing the republic's macroeconomic problems.

Since 1985, industrial output in Slovenia has been declining by about 10 per cent and gross fixed investments have been reduced by more than 30 per cent. In the first nine months of 1991, the downward trend continued, with manufacturing output falling by 11 per cent compared with the same period in 1990.

Attempts by the government to reverse these trends have not been entirely successful. Mr Marko Kranjec, the vice-governor of Slovenia's central bank, says the government has been postponing introduction of a stabilisation programme since the beginning of 1991.

As a result, when Slovenia declared its independence on June 26, 1991, inflation was running at *12* per cent a month, unemployment was rising above 10 per cent of the labour force, the low level of foreign exchange reserves was *preventing the purchase of* imports, and enterprises were faced with substantial arrears. These economic trends dampened the euphoria of independence. *That was when the central bank stepped in.*

Under legislation passed last June, the Bank of Slovenia, or central bank, was made completely *independent of the government*. Mr Franc Arhar, head of the central bank, and his colleagues set about introducing a tight monetary policy, *primarily aimed at curbing* inflation and stimulating growth.

The first measures undertaken by the bank was the introduction of a new monetary unit called the Slovene Tolar (SLT).

For technical reasons, the conversion rate between the Tolar and the Yugoslav dinar, the federation currency, was initially fixed at one for one. A maximum amount of SLT27,000 per person was allowed so as to insulate the new monetary system from the rest of Yugoslavia and to reduce the amount of Yugoslav dinars from other part of Yugoslavia being converted into Tolars. All existing notes and coins were exchanged within 27 hours.

Once the new currency was introduced, the central bank set about wiping out excess liquidity from the banks by employing a variety of instruments. Mr Kranjec explained how the central bank stopped the policy of selective lending to priority sectors; reduced the minimum reserve requirements from 20 per cent to 7 per cent of demand deposits; revoked the automatic availability of re-discount facilities to commercial banks; introduced a fixed re-discount rate of 25 per cent per annum; and imposed a credit freeze from October 8 to October 31.

The central bank then examined how the republic's foreign exchange reserves could be boosted. It devalued the Tolar by 60 per cent, or SLT32 to DM1. It then set about allowing the market to adjust the exchange rate.

Transactions were liberalised and 70 per cent of export earnings could be used freely by exporters, but within two days, otherwise enterprises would have to sell the foreign exchange on the spot market to other enterprises or banks. Some 30 per cent of all foreign exchange revenues had to be submitted to the central bank for servicing the external debt, as well as for payment for items such as oil and medicine.

The central's banks persistence in adhering to a tight monetary policy has had a positive affect on the economy.

The *liquidity of the banking* system has been reduced by 60 per cent and foreign exchange reserves have increased by 30 per cent to $250m. But the *monthly inflation rate remains* erratic. In October, it was reduced to 5 per cent, but the following month it accelerated to 17 per cent a month.

Mr Kranjec and other economists argue that the central bank's success in implementing its tight monetary policy must be actively supported by the government.

"We need support from the government, but we are not receiving it," said Mr Kranjec. For example, the central bank *wants greater, but temporary,* restrictions on price increases, and a tariff policy.

At the moment, various lobbies in the government tend to favour continuing monopolies in the food, food processing, and utilities sector over competition. These lobbies include the agrarian farmers sector, which is politically close to the Christian Democrats, largest party in the Demos coalition and which is led by Mr Lozje Peterle, prime minister.

"Anti-monopoly laws and competition policy must be introduced to curb this huge monopolistic system which can raise prices and push up inflation," argued Mr Kranjec.

The government is slowly coming round to supporting the central bank's monetary policy. The jump in inflation last November finally persuaded the cabinet to freeze salaries for six months. The central bank would have even more clout vis-a-vis the government in the successful implementation of its monetary policy if Slovenia was admitted to the International Monetary Fund and the World Bank.

"We will support the central bank's tough monetary policy," said Mr Andrej Ocvirk, deputy prime minister. "But it will take time to come out of the recession. The next few years will not be easy for us," he added.

* "Decentralised versus centralised privatisation: The Case of Slovenia." International Symposium on Privatisation. Bled, Slovenia. February 6-9, 1992.

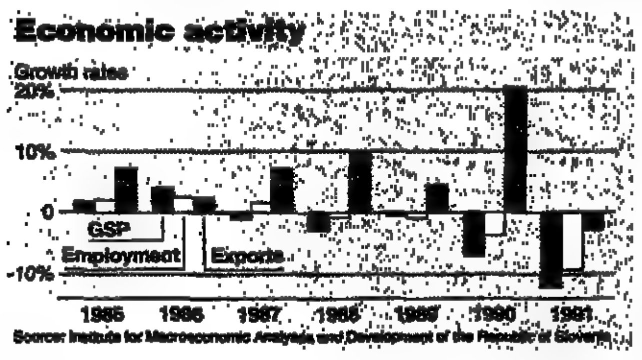
KEY FACTS

Area	20,200 sq km.
Population	1,996,000
Head of State	Milan Kucan
Currency	Tolar
Average exchange rate	1991 $1=27.57
Exchange rate (first quarter average)	1992 $1=84

ECONOMY	1990	1991
Total GDP (US$ m)	11,890	15,000
Annual percentage growth in:		
Private consumption	-5.5	-8.0
Gross fixed investment	-12.0	-16.0
Consumer prices	549.7	117.7
Real wages	-7.3	-9.0
Ind. production	-10.5	-11.0
Agricultural production	2.8	-1.0
Construction output	-11.3	-25.0
Retail trade volume	-4.5	-4.0
Tourism	-6.5	-22.0
Unemployment (000's)	44.6	92
Employment (000's)	814.1	n.a
Discount rate (% pa,year end)	30.0	25.0
Trade		
Exports (US$ m)	4,118	n.a
Imports (US$ m)	4,727	n.a
Trade balance (US$ m)	-609	n.a
Gross external debt (US$ m)	1,814.0	1,830

Source:Statistical office of the Republic of Slovenia
Bank of Slovenia

Economic activity



Source: Institute for Macroeconomic Analysis and Development of the Republic of Slovenia

BANKING

An awkward period

THESE are tough times for Slovenia's banks. They are tough because the banking system has inherited a peculiarity of the Yugoslav federal banking system in which enterprises could establish their own banks. In doing so, the enterprise managers could simultaneously be represented on the board of their banks.

The result was that the local bank manager could issue credit to his or her own enterprise. There was little or no accountability. The banking system was devoid of checks and balances.

In late 1989, the Yugoslav federal government, then headed by Mr Ante Markovic, attempted to start a process of restructuring which was aimed at breaking the incestuous relationship between the banks and enterprises. But there were too many interests at stake in cutting off credits lines from the enterprises.

Enterprises were in no position to stand on their own feet without credits. Moreover, they had been spoiled by soft budget constraints, consisting often of "soft" loans extended by the banks to the enterprises, as well as inter-enterprise loans. Any immediate axeing of the credit lines would lead to insolvency, bankruptcy and more unemployment. Against this background, Slovenia's banks are now in the process of restructuring.

It is not going to be easy because the republic's banks, in particular, the Ljubljanska Bank, is saddled with bad debts. This is because it largely monopolised the republic's banking system. About 60 per cent of all enterprise loans are on the bank's books at its headquarters in Ljubljana, the capital of Slovenia, and when its dozen or so subsidiaries are taken into account, the Ljubljanska Bank network holds between 80 per cent and 90 per cent of the republic's enterprise loans.

"What else would you expect when this bank had the monopoly," said Mr Marko Kranjec, former finance minister and now the vice-governor of the republic's central bank, who believes in implementing a tight monetary policy.

"However, this does not mean that the Ljubljanska Bank is 90 per cent contaminated. It is in bad shape. But the bank can obtain credit lines without problems. Throughout the republic, we have only one illiquid bank. In fact, most of the banks will be able to survive," he added.

It is difficult to gauge the precise figure for non-performing loans because loans are divided into five categories: normal loans repayable within a few days; loans payable within 60 days; loans payable between 60 and 180 days; loans payable between 180 days and one year; and those loans which exceed one year.

However, banks officials reckons that non-performing loans exceed DM1bn – and that is excluding inter-enterprise loans and other means of financing to the enterprises. The questions now preoccupying Slovene bankers are how the banks can be restructured and how enterprises can start exercising financial discipline.

Mr Stanislav Valant, assistant managing director of the Ljubljanska Bank, describes restructuring as "a long process."

"Some enterprises started to restructure two years ago when they saw how the political developments were going to affect their exports to other parts of Yugoslavia. Then there are others who are involved in debt-equity swaps. It is a case-by-case process," he said.

But like Mr Kranjec, Mr Valant believes that the board of directors of banks must no longer be net debtors. "The relationship between enterprises and banks has to be changed. The legislation exists. It just has to be implemented," said Mr Valant.

Mr Valant sees the problem of restructuring the banks in terms of a transition. Because there has been no financial discipline to speak of, and because there are no financial institutions in place such as pension and investment funds, so as to provide additional sources of financing, the rug cannot be pulled from under the feet of the enterprises overnight.

If most of the banks are burdened with non-performing loans, there is another problem facing the banks, namely the claims against the National Bank of Yugoslavia (NBY), which is based in Belgrade, the federal capital and capital of the republic of Serbia.

In the past, any foreign exchange deposits made by Slovenes to the banks in Slovenia were transferred to the NBY. Most of the deposits of Slovene citizens, which exceed $1.2bn, had been originally placed in the Ljubljanska Bank.

Because of Slovenia's declaration of independence – which Serbia and the NBY opposed – the NBY's (and Serbia's) desperate need for foreign exchange reserves, and Belgrade's unwillingness to open up negotiations with Slovenia on the question of foreign exchange deposit accounts, the NBY has not released these deposits to Slovenia.

As a result, the deposits have remained technically frozen although some economists in Slovenia believe the deposits have been spent.

A similar picture exists for those foreign exchange deposits held by Croat citizens in the Ljubljanska Bank in Zagreb, capital of neighbouring Croatia. They amount to $454m.

Mr Valant says the banks' claims against the NBY will probably be purchased by the Slovene government. "The Slovene government will have to negotiate these claims and, probably, the Slovene government will guarantee these deposits. The Prime Minister [Mr Lojze Peterle] said the government would issue a letter of intent and would purchase those loans from us," said Mr Valant.

Were this to happen, he believes public confidence in the banking system in Slovenia would be fully restored.

Judy Dempsey

The Ljubljanska Bank is saddled with bad debts because it monopolised the banking system

THE STOCK EXCHANGE

Legislative fillip sought

IF traders at Ljubljana's small but lively stock exchange could choose a present to celebrate the second anniversary of the Borza's opening on March 29, 1990, they would probably opt for a new batch of legislation which would speed up privatisation and foreign investment.

"New legislation would give the exchange a real fillip. We still have to develop Slovenia's financial infrastructure and financial instrument," said Mr Drasko Veselinovic, 33, vice-chairman and chief executive officer of the Borza, which is located on the sixth floor of a high-rise office block in the centre of the capital.

Despite the slow pace of the economic reforms, the Borza is thriving. "There is an enormous interest in the exchange," said Mr Veselinovic. On a typical trading day – it is open twice a week on Tuesdays and Thursdays – the trading floor is packed with young and old, men and women, standing around the central trading desk. More significantly, at the other end of the floor, space has been set aside for the public which keenly follows the day's prices.

Outside on the street, exchange prices flash across a large electronic screen. "We keep the public informed. It is the only way to attract interest and promote awareness of the market economy," said Mr Veselinovic.

The Borza has 30 securities listed, of which five are stocks and the rest consist of bonds issued by the government, municipal councils, or commercial institutions. The bonds can be traded in all denominations of foreign currency but, because the Slovene Tolar, the unit of currency, is pegged to the D-Mark, trading in Deutsche Marks account for 95 per cent of total volume. Payments are made in Tolars.

The stocks include a private bank in the neighbouring republic of Croatia, the Mladinska Kniga, Slovenia's large publishing house, and the SKB bank, the republic's second-largest bank.

Last year, market capitalisation was $600m and the annual turnover totalled DM106m. But Mr Veselinovic says that daily turnover in recent weeks has amounted to DM2m.

"This is quite a substantial increase. It is partly due to the launch of a gold product – bars, coins and commemorative medals. Can you imagine what the exchange would be like if the government started selling off those 1,600 state-owned companies,?" he asked rhetorically.

In common with other exchanges, Ljubljana's Borza has a "clausus", which stipulates that no share can rise or fall above or below 20 per cent in any single trading day. But with such a high clausus, is there not a danger of inhibiting risk-taking? "Not at all," explained Mr Veselinovic. "We have no choice, given the rate of inflation which is running at between 10 and 12 per cent a month."

Inflation, and the absence of legislation in other areas of the economy, has not deterred the exchange from opening its floor to foreign investors.

"There are no limitations for foreign members who want to trade here. All they have to have is a legal branch here. The Borza is open to all hard currency accounts. Investors can take their dividends freely out of the republic – subject to a withholding tax – and they can be paid in the currency in which they originally traded," said Mr Veselinovic.

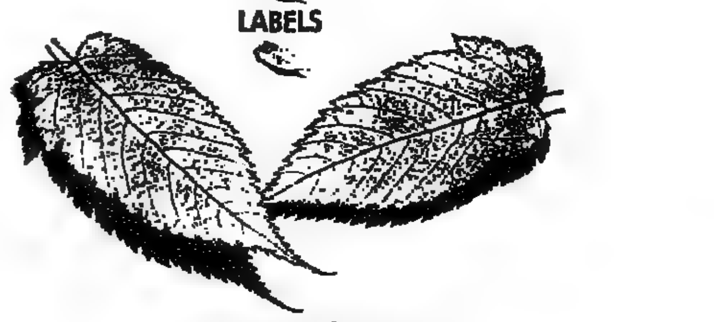
However, the foreign exchange law has yet to allow the listing of foreign securities, but it does permit the issuing of securities by joint ventures or foreign-owned companies which are based in Slovenia.

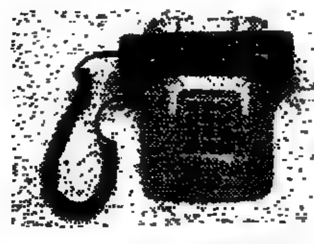
Moreover, the exchange's founding statutes are restrictive in the sense that ownership is in the hands of the banks, which are only allowed to buy shares in the Borza. Ljubljanska Banka, Slovenia's largest bank, holds 30 per cent of the exchange's total capital.

However, there are plans to widen this ownership structure through allowing new shareholders such as insurance companies and pension funds

Mr Veselinovic and his colleagues believe that once the privatisation law is passed, the Borza will really thrive. "We are already preparing for this. We are looking for new and bigger premises. In a year's time, we will have in place a complete electronic system," he explained. He added: "I suppose we were ahead of time when we first opened. But then, we couldn't wait around, waiting for things to happen, could we?"

Judy Dempsey





□ PRIVATISATION

The debate continues

IT is doubtful if Professor Jeffrey Sachs, one of the most ardent proponents of the shock *therapy programme* which seeks to privatise the economies of the former communist countries in the shortest possible period of time, will be returning to Slovenia in the near future.

Prof Sachs, from Harvard University, is one of three professors advising the Russian government *on a "shock transition"* to a market economy. His plan for Slovenia, first unveiled to the Slovene parliament in April 1991, involved a massive and speedy privatisation to be centralised and administered *by the government.*

But his programme for Slovenia's *privatisation* programme deepened the divisions in the government and precipitated the resignation of two of the government's *most talented* ministers – Mr Joze Mencinger, the deputy prime minister and economics professor at the University of Ljubljana, and Mr Marko Krajnac, the finance minister.

Both are now at Slovenia's central bank keeping a tight hold on monetary policy.

The two ministers resigned for one main reason. "We wanted a decentralised system of privatisation which was suited to the Slovene economy," says Mr Mencinger.

"The idea was that an enterprise could choose from many methods of transformation [towards privatisation] laid down by the law and could even combine them," he said.

"The government would determine the rules for the privatisation and would monitor it, but would not administer it. Privatisation would be gradual; there would be no free distribution of shares at the beginning of the process and enterprises would be transformed into joint stock, or limited companies, in two years," he added.

In broad terms, the Sachs model, supported by Mr Lozje Peterle, prime minister, Mr Andrej Ocvirk, deputy prime minister, and Mr Igor Umek, minister responsible for privatisation, was in two stages.

The first phase involved a distribution of a percentage of the enterprise shares to *employees,* and to a development fund. Later, shares from the development fund would be transferred to five newly-created investment funds which would be distributed among the citizens of Slovenia.

The main thrust behind this plan was to create a model for ownership and a definition of property rights as soon as possible.

In common with the rest of the republics of the former *Yugoslavia – but not with the* countries of eastern Europe – property is socially owned. It is owned neither by the state nor by private individuals, but by the workers. Until recently, however, they had not been free to raise equity by selling this socially-owned property.

Thus, both privatisation *plans had to determine how* best to transfer socially-owned property into private ownership. Should it first be transformed into state-owned property, or should enterprises be given a range of options about how to privatise.

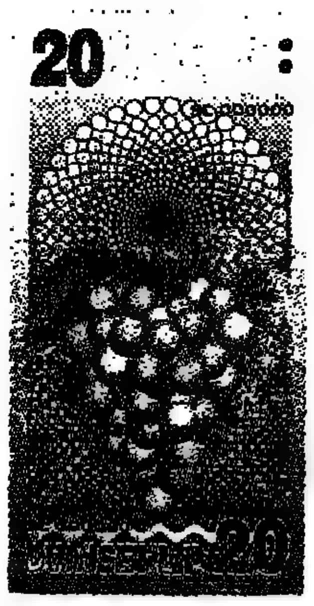
The Sachs programme was criticised on the grounds that real ownership would rest in the hands of the state and the politicians. One year later, the *Slovene coalition government* is still debating a privatisation bill. "We now have a bill which the government is discussing," says Mr Igor Umek.

"It is a compromise, taking into account aspects of the two former proposals on privatisation," said Mr Umek. The current bill envisages that:

- *Up to 20* per cent of the values of the assets will be distributed at a discount to the employees;
- 20 per cent of the shares will be distributed to the population through mutual funds;
- 10 per cent of the shares will be earmarked for a retirement fund;
- 10 per cent of the shares will be placed in a restitution fund (set up to compensate those whose property was confiscated or nationalised by the communists after the Second World War);and
- *The remaining 40 per cent* will be sold to foreign or domestic buyers.

Despite the political wrangling over new legislation, Slovene enterprises, of whom many are anxious to raise equity, have been able to use the federal government's enterprise law and foreign invest*ment law, both of which were* passed in late 1989.

The two laws divided ownership into social, co-operative, mixed and private ownership. A federal law on social capital,



This Lipa currency was never adopted. The Tolar was introduced in October 1991

which was passed in 1989, gave workers' councils the right to sell companies to private owners. The *proceeds* were paid into a special development fund. Agencies were set up in each republic to assist enterprises in this work.

Later, in August 1990, employee buy-outs were allowed through the purchase of "internal shares" at a discount, but sales of these shares were prohibited on the securities markets.

The federal law, although radical, contained several weaknesses. The Slovene government, elected in April 1990, took advantage of the federal legislation and attempted to *close the loopholes.*

An Agency for the Promotion of Economic Restructuring and Transformation of Companies – otherwise known as the Privatisation Agency – and a development fund, were established in December 1990 to supervise the process of privatisation throughout Slovenia.

Mr Marko Simoneti, director of the agency, says privatisation is moving apace. "There are a lot of loopholes with the federal law, but we are closing them. The question now is to decide what should be sold and when the government will embark on a national strategy for the development of the Slovene economy," he said.

Unlike other former communist countries, the agency has not had the opportunity to have wide access to western experts – because their fees are high. And it has not yet had access to the UK's Know-How Fund which was set up in 1990 to provide technical expertise and financial assistance to former communist countries.

Despite these drawbacks, Mr Simoneti says the agency is implementing three methods *for the privatisation of socially-*owned enterprises. These include partial or full acquisi*tion of an enterprise* by a foreign company; additional investment of equity capital; and debt-to-equity conversion by the creditor.

The agency also advises on establishment of new companies, or equity joint ventures with socially-owned enterprises.

"*When we were set up, one* of our main tasks was to set up a licensing system for business appraisers in order to provide a solid base for approving privatisation of enterprises on a case-by-case basis," explained *Mr Simoneti. "This* is working well. We are confident that the privatisation process will speed up over the next few months."

Judy Dempsey

□ A CASE STUDY

Investors shrug off conflict

WHEN is the right time to privatise a company? Certainly not during a war. But this is precisely what happened in June 1991 when the Yugoslav *federal army attacked the* republic of Slovenia. It was also the first large transaction in Slovenia in which the Privatisation Agency and the development fund sold 76.5 per cent of a company to two foreign partners.

The company involved was Tobacco Company Ljubljana *(TCL). Established 120 years* ago as a state tobacco monopoly, it was the seventh-largest *cigarette factory in the former* Yugoslavia, producing 4bn cigarettes a year, and holding 7.1 per cent of the total market.

It also produced 1.1bn units for other tobacco companies, and exported 200,000 units. It distributed 80 per cent of all cigarettes of various brands consumed in Slovenia. The *number of employees totalled* 1,780 in 1991.

Over the past 40 years, TCL was run by the workers' council which, under the terms of the federal government's legislation on privatisation, had decided it would initiate privatisation proceedings. It needed capital.

The company was running into problems. Its market share has declined from 17 per cent *to 7 per cent over the previous* decade because of a change in consumer demands. In addition, exports were likely to fall because the cigarettes were not of international quality.

In late 1990, TCL decided it wanted to link up with an international cigarette manufacturer. Management and *employee buy-outs were* deemed unsuitable since these methods of privatisation would not tackle the company's long-term problems – and aims.

Its goal was to produce an internationally-known brand and a new generation of cigarettes with low tar and nicotine content. It hoped to increase the quality of existing TCL brands; obtain new machinery for this purpose; *introduce modern management* techniques, particularly in the marketing sector; and gain better access to international markets.

The agency was called in and negotiations started with two foreign tobacco manufacturers: the German-French Reemtsma/Seita firm and a US company.

After months of valuation and analysis, both potential investors were invited to submit their offers and were asked to describe how they would meet the goals of TCL. The offers were received by the agency on June 10. But both offers were too low in comparison with the appraised value by the agency's licenced appraiser.

The contract included a detailed investment programme, spread over five years, which totalled DM110m

Fresh negotiations were started – in July – at the height of the war in Slovenia.

"That was an *important* signal for us that these foreign companies had a genuine interest in investing in TCL," explained Mr Simoneti.

"The key issue they were concerned with was how much should the rate of return be increased to accommodate for the political risk in our coun*try. On this point, we took* a strong position – arguing that political instability is a short-term problem and that in the long run, political and economic risks in Slovenia are much lower," said Mr Simoneti.

By the end of July, both offers were increased by 40 per cent. Reemtsma-Seita had the edge on its US rival because it proposed a partnership that would preserve the identity of *TCL and thus continue the* business tradition of one of Slovenia's oldest companies.

Over the next few months, the nuts and bolts of the deal were put together in the following way:

- The socially-owned company was transformed into a limited liability company. The shares were transferred to the development fund, which then became the seller of the company;
- Some 76.5 per cent of TCL shares were bought by Reemtsma-Seita. The remaining 23.5 per cent of the shares were reserved by the fund for the future sale, or future free distribution to employees. The foreign partners were willing to accept employees as shareholders;
- The contract included a detailed investment programme spread over five years which, along with the purchase price, totalled DM110m;
- A modernisation plan was agreed involving no redundancies, and an extensive training programme was written into the contract.

Mr Simoneti, who prefers a long-term business plan to a *quick sale, says the contract* shows that even in a war, business can be concluded.

More importantly, he says enterprises themselves are now taking the lead in starting privatisation proceedings. "Although we do not have a clearly-defined strategy about what should be privatised, *interest among the enterprises* is increasing and contracts are being signed. Foreign investors are now looking at Slovenia as a market, not just for this republic, but for the former Yugoslavia as well," he said.

Judy Dempsey

Judy Dempsey on the political background

Harsh realities after euphoria

MOST government coalitions have a honeymoon period. But sooner or later, they file for divorce. Slovenia is no exception.

Across the post-communist world of eastern Europe, the young, democratically-elected governments, of which several are coalitions, are struggling to create strong and stable democratic institutions. Most of them have written new constitutions aimed at breaking completely with the communist period. All have had free parliamentary elections. Again, *Slovenia is no exception.*

But this small republic of 2m people is unique among the former communist countries.

The six-party Demos coalition which was elected in April 1990, and which is headed by the Christian Democratic Party under Mr Lozje Peterle, prime minister, had to fight for its independence when the Yugoslav federal army attacked Slovenia after it declared its independence on June 25, 1991.

Throughout the war, Slovenia was effectively ruled by a triumvirate of ministers consisting of Mr Janez Jansa, defence minister, Mr Igor Bavcar, interior minister, and Mr Jelko Kacin, information minister. None of them belong to the Christian Democratic Party, the dominant party ion the six-party coalition government.

At the helm was Mr Milan Kucan, president of Slovenia, who, as a reform-minded leader of the republic's communist party in the mid-1980s, moved Slovenia towards political pluralism and independence.

After the European Community-brokered Brioni accord in July 1991, in which the Yugoslav army agreed to withdraw from Slovenia and Slovenia imposed a three-month moratorium on the implementation of its independence, the ruling Demos coalition started fraying at the edges.

The euphoria of defeating the Yugoslav army gave way to the harsh realities of trying to set up institutions for independence and the market economy.

Introduction of new laws on privatisation, foreign investment and the restructuring of the banking system has proved difficult. They have also led to bitter divisions within the government, for which there are three reasons.

First, the government consists of 27 ministries in which there is little or no co-ordination. No one questions the need to reduce the government by half. Nor does anyone doubt the jostling for posts among the coalition partners in any new government.

> **Pushing draft legislation through the three chambers is politically difficult and time-consuming**

Second, the government has inherited the former communist "parliamentary" system common to the other republics of the former Yugoslavia. This system is composed of three 80-member chambers: the Chamber of Associated Labour, the Chamber of Communes, and the Socio-Political Chamber. Together these three chambers make up the 240-strong Assembly (or parliament).

The Demos coalition holds 55 per cent of the assembly seats, but it has not got a majority in the Chamber of Associated Labour. As a result, pushing draft legislation through the three chambers is politically difficult, as well as time-consuming.

For the sake of consensus, bills are often watered down, or else rejected. Moreover, most acts require a two-thirds majority vote from among all three chambers. The government's property and ownership laws, which required a simple majority vote, were faced with 240 amendments from the chambers. All those amendments had to be voted upon in each of the three chambers.

On a more optimistic note, the next election should produce a more efficient parliament because the constitution has replaced this cumbersome, bureaucratic system with a smaller bicameral system.

Finally, government legislation has been delayed, indeed paralysed, because of internal rivalries and the break-up of the Demos coalition.

This occurred in February after a group of independent deputies attempted to make the government leaner and more efficient by calling for a vote of no confidence against the incumbent government.

The attempt to unseat Mr Peterle was led by Mr Marko Voljc, who has worked with the World Bank since the 1970s. Mr Peterle, a Roman Catholic who is more interested in opening churches than visiting factories and who has little interest in economic affairs, has lost several ministers because of disagreements over economic policy.

The attempt to toppled the government failed. But in the process, the government is now polarised between the conservative Christian Democrats and the Peoples (former Farmers') Party on the one side, and on the other, by the liberals, who are grouped around the Democratic Party, led by Mr Bavcar, and the Liberal Democratic Party.

Economists and bankers in Slovenia say that the disagreements and endless quarreling in the government could be resolved by calling fresh elections, which would give the next government a clear mandate for reforms.

But no elections can be held until the assembly has agreed an electoral law. On that point, no party can agree on whether it should be proportional representation, first past the post, or a mixture of both systems.

"I would like elections as quickly as possible," says Mr Kucan. He will run again for president, but is expected to face stiff opposition from Mr Janez Drnovsek, the former Yugoslav federal president.

Unless a spectacular wind of goodwill, reason, and consensus prevails over the next few weeks, elections will not be held until the autumn. "The longer we delay, the more time we will lose in introducing reforms," added Mr Kucan.

President Milan Kucan (left): reform-minded. Prime Minister Lozje Peterle (right): lost ministers

☐ PROFILE: Mura textiles

Hard work, flexibility and common sense

IT is not often you find a Louis Féraud or a Boss label in any of the textile factories in eastern Europe, or in any of the republics of the former Yugoslavia.

And it is seldom in this part of Europe that you come across young men and women designing and working on computers for next season's fashions.

But this is precisely what is taking place in the Mura textile factory, which is located in Muraska Sobota, a town of 16,000 inhabitants set on the great Pannonian plains in north-eastern Slovenia and almost touching the borders of Hungary.

Here, the people of Muraska Sobota have been engaged in the textile industry since 1925 when Mr Janez Cvetic set up a small workshop in which he employed four women to sew underwear. Since then, the textile factory, which was nationalised after the Second World War, has expanded into an export-driven enterprise, spread over eight plants, employing more than 6,500 people and exceeding an annual turnover of DM130m.

Mr Bozo Kuharic, the general director of Mura, puts the successful growth and expansion down to hard work, flexibility, and common sense.

"Three years ago, we knew that the political climate throughout Yugoslavia was changing. It was becoming more complicated to do business with the other republics. So we concentrated even more on expanding the export side of the business," he explains.

Today, more than 90 per cent of Mura's production is geared specifically for western markets. The textile industry in Slovenia contributes more than 7 per cent to the republic's GDP and employs more than 50,000 people. It has traditionally been an export-oriented industry.

"Over the past few years, we saw how we were losing part of the Yugoslav market," says Mr Kuharic, 51, who joined the company 24 years ago and who has been general director for the past 14 years.

"We were ready to find new export markets – after all, the export business is nothing new for us. Thirty years ago, it was decided by the management that it should be export driven, and we have not looked back since," he says.

Mura, as a general principle, does not sell to western markets under its own label although it has two of its own labels which it markets abroad. Instead, European retailers, equipped with their own designs, commission Mura to cut and manufacture the products.

Mrs Danijel Plemenitas, the technical manager, says that more than three-quarters of its clients are "steady".

> **In recent years, the company has been investing about DM10m in machinery, particularly computers**

"This means that our employees can identify with the label. We try to have the factory floor designed in such a way that one group of employees will be sewing for one particular western retailer. I suppose it builds up a kind of loyalty," said Mrs Plemenitas.

Mura's biggest client is Germany, which accounts for 70 per cent of its turnover, followed by the rest of the European Community countries. Mr Kuharic says the US and Britain remain difficult markets because of textile quotas. As a means of trying to expand into the US market, Mura established a joint venture in New York in which it holds a 25 per cent stake. It also has a joint venture in Munich.

The comfortable turnover of Mura means that it can update its equipment, and import quality fabrics, mostly from Italy. Its annual imports total DM30m.

In recent years, the company has been investing about DM10m in machinery, particularly computers. Recently, it has been diversifying into computer software management programmes which it sells to other enterprises in Slovenia. These sales now account for about 10 per cent of its turnover. In the near future, the Mura management plans to invest in computerised cutting machines.

But the future also raises questions about whether the capital base of the enterprise should be increased.

Mr Kuharic says Mura will only negotiate a privatisation package if the company is treated on equal terms with a bidder.

At the moment, Mura is socially-owned, which means that neither the state, nor private individuals, own the company. Instead, it is owned by the workers. Under the terms of a federal law passed by the Yugoslav government in 1989, they have the right to buy out the company themselves, or initiate privatisation proceedings with a foreign partner through Slovenia's Agency for Privatisation, and the republic's development fund which are overseeing the republic's privatisation process.

"We will be eventually transformed into a limited company," said Mr Kuharic. "About 15 per cent of the shares would be held by the employees, 40 per cent would be sold to a domestic or foreign partner, and we would decide later what to with the remaining 40 per cent of the shares. It depends on what kind of legislation the Slovene government decides," he says.

Mr Kuharic says Mura's capital base is strong. "We do not have any outstanding loans or credits. We can use our foreign exchange earnings as we wish."

In common with other enterprises in Slovenia and the other republics of the former Yugoslavia, the management of Mura is represented on the board of the local Ljubljanska Bank. Mr Kuharic thinks that in future, creditors should not be members of the boards of banks.

And what about eventually marketing Mura's own label among western retailers? Mrs Plemenitas says the company spends little on marketing its own product, adding that Mura's strength is its flexibility and its reliability in satisfying its clients.

"Launching our own label would require a large investment in terms of marketing. I suppose it is a question of perception. It is like trying to compete with a Mercedes," she said.

Judy Dempsey

☐ PROFILE: Iskra Telecom

Focus on expanding markets

THROUGH sheer hard work, skilled expertise, and good business sense, Iskratel, a joint venture company in which Siemens holds a 47.2 per cent share, is thriving. But no thanks is due to the former Slovene government.

Iskratel is part of the Iskra Telecom group, the successor of Iskra Telematika which was founded in 1946 in Slovenia to manufacture electronics and high precision equipment.

Today, the group consists of 12 companies specialising in the production and marketing of telecommunications equipment, high-quality computer equipment, and services.

The majority owner of the Iskra Telecom group is Iskra Telecom Holding which was established in 1989 as one of the first holding corporations in the former Yugoslavia. It controls the programmes and strategies of the dozen companies which are grouped under this parent company.

The creation of Iskra Telecom Holding was one of the main prerequisites for Iskratel entering into a joint venture with Siemens.

The joint venture was mooted in the late 1980s, when the late Mr Franz-Josef Strauss, former West German defence minister, visited Slovenia. At that time, the Iskra group had already been co-operating for some years with another west European telecoms company.

Slovenia's communist authorities, anxious to attract Siemens to the republic, proposed to the Iskra management that if it ended co-operation with the other west European company, it would match the capital put up by Siemens.

Siemens, for its part, was anxious to gain a foothold in this part of southern Europe.

"We have not seen one penny from the Slovene authorities," said an Iskratel employee. "We really needed that capital to invest and to restructure." The employee, a computer engineer, said the government created the Iskra Telecom group so as to carve out Iskratel from the core company in such a way that it would be attractive to Siemens.

"The Iskra company was beginning to have financial problems at that time. Naturally, a foreign partner did not want to inherit any debts from our side," the employee explained.

An Iskra factory producing telephone sets in Kranj. Iskratel looks set to consolidate its markets in southern and eastern Europe

"Luckily, the joint venture has worked out. But the much-promised capital from the government would have given us greater clout with our foreign partner. We could have marketed our own products more successfully in Europe," he added.

Despite broken promises, and some restructuring difficulties, Iskratel has pulled through successfully, and looks set to strengthen its markets throughout this part of southern and eastern Europe.

As a joint venture, Iskratel produces and markets EWSD, a digital electronic switching system for public communication networks. This has been licenced from Siemens.

This system is complemented by the Slovene-produced SI 2000 digital switching system which is specifically designed for private and public networks of small and medium capacities, and is particularly suited to rural and less-developed regions. This is licenced from Iskra Telecom.

Mr Andrej Polenec, managing director of Iskratel, says the complementary system is very successful. "The two programmes are compatible and suit the needs of our future strategy," he explained.

Iskratel has not encountered any big difficulties in payments with any of the republics

Iskratel has its eye on expanding into the Commonwealth of Independent States (CIS), or the former Soviet Union, eastern Europe, and Turkey. Turnover in exports to the CIS, particularly the Ukraine, amounted to DM10m last year, and in 1991, turnover to Turkey exceeded DM10m, an increase of 13 per cent.

"This part of Europe – the CIS, eastern Europe and Turkey – is potentially a vast market for us," said Mr Polenec. "We know the region, we have the contacts and skills from many years experience of working with electronics and telecommunications here in Slovenia, and we are competitive, yet sophisticated," he said.

Iskratel is also determined to capture the large market of the former Yugoslavia.

Despite the war, and the change in the units of currencies in Slovenia and Croatia, Iskratel has not encountered any big difficulties in payments with any of the republics.

"For instance, we have concluded business with the republic of Serbia's PTT worth between DM16m and DM17m," said Mr Polenec. "When we have payment problems with Serbia, we deal in barter. After all, the economies of Slovenia and Serbia are complementary. In lieu of money, we receive copper and cable, which are the strengths of the Serbian economy," he said.

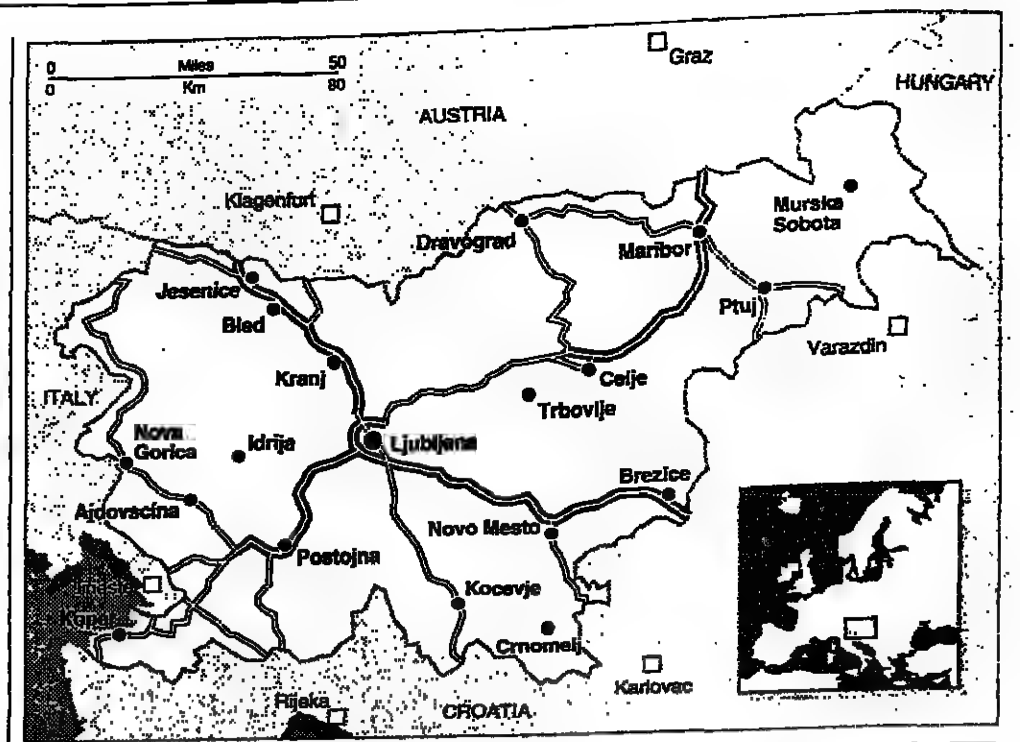
"I reckon Iskratel is in a good position to provide the former Yugoslavia with our switching system," he added.

The balance sheet of Iskratel is now healthy. Debts amounting to DM20m have been cleared. Siemens extended a DM20m credit line – in addition to capital – which is guaranteed by one of Slovenia's largest banks. The company has also been restructured. The workforce has been reduced from 3,200 to 1,100.

The initial start-up capital amounted to DM52m, with Siemens contributing DM25m, and Iskra Telecom DM27m. Turnover last year totalled DM184m, an increase of 30 per cent on the previous year. The company estimates a turnover of DM159m in 1992, reaching DM228m by 1996. About 12 per cent of turnover is earmarked for research and development. Profits in 1992 will exceed last year's total of DM500,000.

"Investments have been considerable. Siemens invested DM25m. The initial investment phase is now coming to an end, so we expect bigger profits," explained Mr Polenec.

Judy Dempsey



☐ PROFILE: Krka pharmaceuticals

Confident about the future

IT is a good thing that Krka's balance sheet does not depend on sales of snails.

The war, and the breakdown of the transport and distribution network throughout most parts of the former Yugoslavia, have meant that Krka has not been able to obtain snails from the republic of Serbia.

Luckily, snails, which are exported by Krka to France, make up a tiny fraction of the exports of a company which is Slovenia's largest ,manufacturer of pharmaceuticals.

The pharmaceutical industry is a highly competitive and tough business, as Mr Joze Colaric, director of Krka's export division, is the first to admit.

The collapse of the communist system throughout the countries of eastern Europe and the Commonwealth of Independent States (CIS), or former Soviet Union, has opened up opportunities for western companies.

But Mr Colaric reckons that Krka is in a strong position to maintain, and expand its markets in this region because of its experience and presence in this part of Europe for several years. Exports of pharmaceutical products account for 3.6 per cent of Slovenia's exports.

In the first nine months of last year, Krka's exports to eastern Europe increased by 18 per cent to 78 per cent, compared to the same period in 1990. In particular, exports to Poland in 1991 totalled $30m, an increase of $19.3m.

Krka's turnover in 1991 amounted to $280m, of which $120m was earned from exports to eastern Europe, and $14m earned from exports to western markets.

"We export ready-made drugs to eastern Europe and the CIS, and raw materials to western countries," explains Mr Colaric. "Our strengths are in exporting finished products to eastern Europe. We know these markets inside out," he says.

Closer to home, Krka realises that it cannot ignore the market in the former Yugoslavia. Sales to the Yugoslav market fell by 20 per cent in 1991 and are expected to fall by an additional 5 per cent. This is hardly surprising, given the war, the disruption in the monetary and financial system, and the poor relations between Slovenia and Serbia, which opposed Slovenia's declaration of independence on June 25.

Indeed, Krka lost one of its recently-built factories in Surljig, in the republic of Serbia, after the local workforce took over control of the plant.

Despite the problems, Mr Colaric is optimistic about Krka's future relations with the former Yugoslavia.

"Outstanding payments owed by Serbia to Krka amount to $10m-$15m," he said. "But we are still supplying Serbia. The republic pays us with sugar, soya beans, starch and copper. Serbia is strong in raw materials."

Krka is fortunate in the sense that 70 per cent of its raw materials for pharmaceutical products are manufactured in Slovenia.

Inevitably, as economic reforms in Slovenia progress, and financial discipline is introduced in a banking and accounting system which was extremely lax, companies such as Krka will have to think hard about ownership structures.

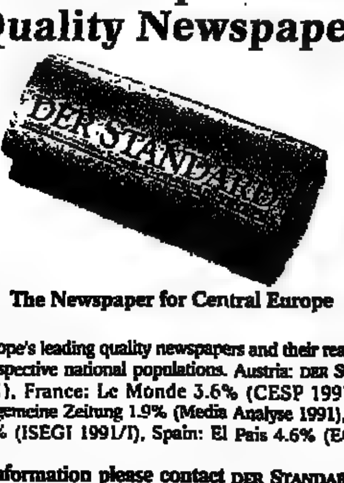
At the moment, the company is socially-owned, which means that the workforce, not the state or private individuals, can decide about its future.

"We are interested in foreign partners, but we want to have a controlling interest in the company," said Mr Colaric. Krka is in need of capital. Its long-term debts total $1m and its commercial debts – to suppliers – amount to $12m.

But because its reputation among western pharmaceutical companies is high – companies such as Wellcome and Sandoz have extended licences to Krka – and because Krka has an attractive network of spas throughout Slovenia which account for 10 per cent of its annual turnover, Mr Colaric believes the company is in a strong negotiating position.

"We know the region [of eastern Europe], we know the markets, our labour costs are low, and we have a highly-skilled work force. We are confident about the future," he adds.

Judy Dempsey



FINANCIAL TIMES SURVEY

Lloyd's of London in World Insurance

SECTION IV

Monday March 30 1992

Mounting losses at Lloyd's threaten to ruin some of the people who back its insurance activities with their personal fortunes. Amid criticism over the apportionment of these losses and calls for radical overhaul, it faces its biggest ever challenge, writes Richard Lapper

In the eye of the storm

Accidents, such as the 1988 explosion on the North Sea Piper Alpha platform which claimed 167 lives (above) and natural events like the hurricane in Britain in 1990, (left) triggered huge losses and contributed to today's malaise at Lloyd's of London (right)

LLOYD'S of London is about to enter the most testing period in its 305 year history buffeted by waves of criticism after reporting insurance losses last year, the first for more than 20 years.

During the next few weeks agents will be telling Names – *the individuals whose assets* back underwriting at the market – how much money they need to pay as a result of insurance losses run up in 1989.

Losses will amount to more than £1.35bn. Names face more pain next year when 1990 losses – which could be at least £400m – are reported. Many more Names will leave Lloyd's as a result, joining the exodus of 10,000 who have quit since 1988 and hundreds could be obliged to sell houses and other assets to meet liabilities.

The impact is bound to revitalise the political controversy *that has swirled around the* market over the past 12 months and which became most intense in February when MPs raised allegations that market insiders – Names who have jobs with Lloyd's agents and *brokers – were avoiding* the worst losses and that the burden was falling disproportionately on outside Names.

It is also likely to increase the pressure on the Lloyd's Council, the market's governing body, to implement a series of reforms proposed in January by the task force, a committee made up of leading underwriters and brokers and led by Mr *David Rowland, the chairman* of Sedgwick, the international insurance brokers.

The task force's report proposed a series of reforms which aim to strengthen the market's capital base, cut costs, improve competitiveness and help Lloyd's increase its declining share of the international market for specialised commercial insurance and reinsurance.

Among the recommendations are a proposed modification of the principle of unlimited liability as well as an overhaul in the system of governance, designed to *strengthen the independence of* regulation and to improve the management and the development of centralised back-up services.

In the longer-term the report envisages the participation in the market of corporate capital and advocates the creation of a system whereby Names' participations on syndicates could be traded.

It reflects the thinking of a new elite of professional insurance managers – loosely grouped around the Lloyd's Underwriting Agents Association – which has emerged during the 1980s and which is less attached to tradition, more professional and more outward looking than the Lloyd's establishment has been in the past. Privately some task force members *accept that the introduction* of corporate capital will pave the way for the physical integration of the whole of the London insurance market – in which the modernist glass and steel Lloyd's building would eventually house an international insurance exchange made up of Lloyd's syndicates – backed by corporate capital as well as Names – and the subsidiaries of London market companies.

To move towards this radical vision, however, the market must surmount a series of short and medium term difficulties, stemming largely from insurance losses which have been made between 1988 and 1990. Lloyd's must still deal with the fall-out from two areas of loss. Names on syndi*cates specialising in catastrophe* reinsurance – especially those which participated unsuccessfully in the spiral, where syndicates and London market companies insure each other's high level exposure to loss – are the immediate casualties.

Catastrophe losses such as Piper Alpha, hurricane Hugo and the European storms of 1990 have affected a sizeable minority of Names disproportionately.

But Names on four groups of syndicates face losses of £700m *in 1989 – about half the total* losses expected by the market as a whole. Hundreds of other Names also face potentially huge losses as a result of claims on US liability insurance policies, stemming from *court awards to victims of* asbestosis and government-ordered clean-ups of polluted sites.

More than 1,000 Names have launched legal actions – alleging negligence by their agents, and in one case by Lloyd's itself – in a bid to recover losses. They have been encouraged by the £116m out of court settlement in February by another 1,000 Names in the Outhwaite case, a result which could also encourage more Names to sue.

The legal actions generate bad publicity, *which could* damage the market's standing. Efforts by about 800 Names seeking to prevent Lloyd's from drawing down on their assets to pay insurance claims are causing cash flow problems *for some agencies and syndicates.*

Ultimately there are fears that the market could become gridlocked by criss-crossing disputes between Names and their agents. This would increase the urgency of attracting corporate capital, further underlining the importance of the rapid implementation of the task force's reforms.

In the meantime immediate prospects for profits in 1992 are improving as rates in the key marine, aviation and reinsurance markets rise following a *reduction in the supply of capi*tal to the market. Summing up the mood Mr John Wetherell, a leading non-marine underwriter, says 1992 will see "the high tide and the turn".

Even so no one is underesti*mating the difficulties* that lie ahead. Mr Robin Warrender, the chairman of London Wall Holdings, one of the biggest agency groups at Lloyd's, says that the results for 1989 and 1990 – which Lloyd's will report in June this year and June 1993 – are like "two trenches full of black vipers".

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THE TASK FORCE PROPOSALS

THE Rowland task force recommendations – all of which have been accepted by the Lloyd's Council – include both short term and long-term measures. A number of working groups are now examining how a number of changes can be implemented. Among the most important:

● The establishment of a compulsory stop loss scheme, financed by a levy on Names, which would cap all losses over a four year period at a level equivalent to their premium limits. A Name underwriting £500,000, for example, would have all losses above £500,000 – incurred over a four year period – paid from the fund. Liability could return to the individual if the fund is exhausted, although the task force saw this as happening only if the market as a whole were collapsing.

● The setting-up of members' agents pooling arrangements, or Mapas, to allow agents to pool all the syndicate participations of the Names whose affairs they handle, to spread risks and rewards more evenly. The agent would pool all portfolios and allocate units in the pool to Names, constructing a kind of unit trust, as distinct from a separate portfolio of participations on separate syndicates for each Name.

● New measures to deal with open years – which syndicate managers are unable to close because of uncertainty over the size of future claims usually arising from liability business, in which claism can arise many years aftert the inception of policies. CentreWrite, the company created by Lloyd's in July last year, to reinsure open years should shift its focus from syndicates to individual Names.

● Syndicates should be allowed to increase the business they write by making more use of reinsurance from outside the market and should also be encouraged to co-insure risks with companies via consortium arrangements.

● Names should be given rights akin to those enjoyed by shareholders, including the rights to: continue participation in a syndicate, replace their managing agents, approve major syndicate transactions, access syndicate information and hold regular meetings of their syndicates.

In the longer term three important proposals would require legislative changes: the introduction of limited-liability capital, the creation of a secondary market for syndicate participation and the abolition of the rule obliging Lloyd's brokers to sell any majority interests in managing agents.

Reform will end Lloyd's peculiar intimacy, writes **Peter Martin**

A time for disentanglement

UNTIL this year, it looked as if the regulatory issues which bedevilled Lloyd's throughout the 1970s had been finally laid to rest by the reforms of the early 1980s.

Though Lloyd's problems were pressing, as was freely acknowledged in the Rowland task force report on the market's future published in January 1992, they were seen as essentially commercial. The Lloyd's Act of 1982 had settled Lloyd's regulatory issues once and for all, it was argued, and the seal of approval had been given to those reforms by Sir Patrick Neill's inquiry into how they were operating later in the decade.

The Neill inquiry's verdict was quoted in the Rowland report in January. In the few months since then, however, it has become clear that regulation is still a live issue at Lloyd's, one which may yet decide whether the market is permanently enfeebled by the problems of the 1990s.

It is Lloyd's commercial problems – in particular the heavy losses on catastrophe insurance in the late 1980s – which have brought the regulatory issues back to the forefront. The losses have revived a time-honoured debate about the treatment afforded "outside" Names – those who do not work in the market, but participate solely through their commitment of capital – as compared with the "working" names who earn their livings as underwriters, brokers and other active market participants.

Outsiders have always grumbled that they are excluded from the best, most profitable syndicates, which were reserved, they alleged, for those who had good market connections, and especially for those who were able to bring business to the syndicate managers. These complaints would have stayed at the level of grumbling had the scale of the losses not suddenly made the treatment of outsiders a hot issue once again.

The problem stems from a distinctive feature of the way Lloyd's is organised: the intimately entwined nature of the relationships between insiders at Lloyd's. For example, brokers who bring business to the market are often also Names in their own right. Underwriters on a syndicate are obliged, by Lloyd's regulation, to participate in the risks as Names on that syndicate; but they may well be members of other syndicates also.

David Rowland, of Sedgwick, chaired the task force

The reforms of the early 1980s, by forbidding brokers from owning managing agents, cut one of the links binding the parts of the market together, but many others remain: managing agents are permitted to own members' agents, for example.

Traditionally, this intimate involvement has been seen as one of Lloyd's strengths. And with good reason: since brokers were forced to divest their managing agents a decade ago, their involvement in the Lloyd's market has become notably less intimate, and a steadily rising proportion of their business is now funnelled elsewhere, bypassing Lloyd's entirely. A market which severed all its internal links might well be one which served its members and its customers less well. The nature of the relationships between working Names, however, makes them vulnerable to accusations of favouritism.

In the good years, the marked contrast between the intimately entwined world of the working Names and the essentially passive, long-distance involvement of the outsiders causes no more than the occasional grumble. In the bad years, it becomes explosive. The issue has been exacerbated by what in retrospect is generally agreed to have been a misguided campaign to promote membership of Lloyd's to people whose finances could not stand the risks associated with unlimited liability.

In the late 1980s, many of these undercapitalised new members were sucked straight into the rapidly growing LMX syndicates, which insure other syndicates against unexpectedly high losses. These had been very profitable in the mid 1980s, and thus appeared particularly attractive to the new joiners – but they were among the worst money-losers when a series of disasters struck the market at the end of the decade.

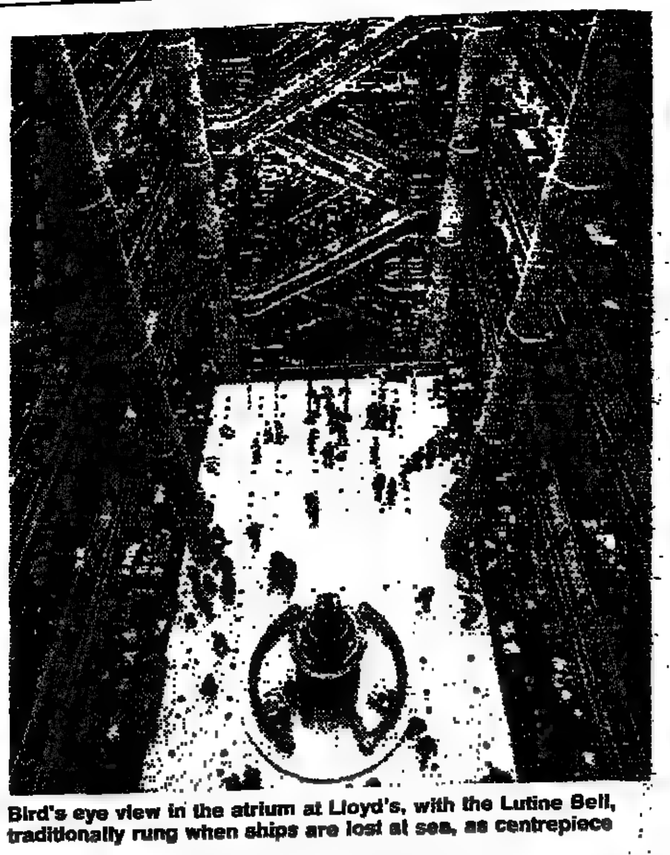
Many of the Names worst affected by these losses have been campaigning for some form of "market settlement" – a sharing out of the burden across the market as a whole. They had waited, with scarcely concealed impatience, for the Rowland task force report, which they hoped might lead to such a proposal. Instead, Rowland set its face against the retrospective mutualisation of risk, partly on principle, and partly because such a proposal would have split the working party – and the market leadership – beyond repair.

Once it became clear that loss-making Names could not expect to be rescued by the Rowland task force, the activists among them highlighted the issue of the relationship between working and outside names. By focusing on allegations of improper dealing, they hoped to attract the attention of press and politicians to their cause and to strengthen the case for a market settlement. If improper actions have taken place, their argument goes, then the market as a whole is responsible for the failure of supervision that has allowed some members to profit at the expense of others; and the market as a whole must therefore shoulder the financial burden.

The issue has become so divisive that Lloyd's has asked Sir David Walker, chairman of the Securities and Investments Board and an ex-officio member of the Lloyd's Council, to investigate. His report, due later this spring, should resolve the truth or falsity of the allegations.

The heat that the issue has generated, and the scale of the losses of the worst-affected Names, mean that even if Sir David's report is an exoneration of the market's practices, pressure for a market settlement will continue. If there is no such settlement, the issue will continue to gnaw away at Lloyd's, hampering the market's ability to respond to other serious problems, draining its liquidity (because many Names will feel entitled to delay or withhold payment needed to meet losses), harming its reputation, and damaging credibility in the eyes of politicians.

Even if these problems can be overcome – by a market settlement or some other solution – the hue and cry of the last few months may well ensure that the "entwined" nature of Lloyd's does not survive the next few years, as the framework of regulation changes, and the market starts to admit corporate capital. Such changes may end the complaints over the way insiders treat outsiders – but it will ensure that much of Lloyd's distinguishing character will disappear also.



Bird's eye view in the atrium at Lloyd's, with the Lutine Bell, traditionally rung when ships are lost at sea, as centrepiece

The agencies are undergoing a rigorous shake-up, reports **Richard Lapper**

It's no longer such a cosy club

FOR MR Eric Dugdale, running his family's members' agency consisted of lunching two or three times a week with Lloyd's Names at The Savoy – a pleasant diversion from time spent building up his art collection.

That was over 20 years ago. Now Mr Dugdale's agency is at the core of a growing business, the Octavian Group, which is one of the most powerful on the Lloyd's market. Skandia, the giant Swedish insurer, has a significant minority stake.

Octavian is a combined agency, running both a members' agency – which handles the affairs of the market's underwriting Names (whose assets provide the market's capital base) – and a managing agency which administers the affairs of groups of Names organised into syndicates.

Its transformation epitomises broader changes within Lloyd's as a whole whose cosy, clubbable atmosphere is gradually disappearing.

Lloyd's agencies are becoming significant businesses in their own right. After making a series of acquisitions in recent years, Octavian's members' agency is in 1992 the seventh biggest at Lloyd's, channeling some £307m of capital provided by Names into syndicates. Its managing agency looks after the affairs of 10 syndicates which insure marine, aviation, energy, property, liability and other risks.

The management team which bought out the Dugdale family agency in 1986 has replaced the old easy going style with a much tougher professional approach. Mr Nigel Rogers, managing director, says that "the business principles operated by all successful commercial enterprises apply equally to Lloyd's syndicates".

Mr Rogers, an accountant, says that the managing agency management team – whose acronym Fear (financial efficiency and review) symbolises the shift in mood – monitors the performance of syndicates and provides management information for underwriters.

Groups such as Octavian are holding increasing sway within the Lloyd's market as a whole, with hard work, hard skills and professional management becoming vital for success. Generally, too, bigger agencies and syndicates are beginning to dominate.

The tough trading conditions – Lloyd's reported its first loss for over 20 years last year – are precipitating the changes. Figures released recently by the Lloyd's Corporation – which provides back up and regulatory services to the market – indicate the extent of the rationalisation already under way.

In the 1992 underwriting year just 278 syndicates will underwrite business at Lloyd's in 1992 compared with 354 in 1991, 401 in 1990 and 437 in 1980. There were also 38 syndicates which ceased trading – among them several who have been devastated by losses arising from spiral reinsurance business in which syndicates and London market companies insure each other's catastrophe exposures. Another 38 were merged by managers anxious to generate cost savings.

Some agency groups have also bitten the dust, continuing a trend throughout the 1980s in which numbers have fallen, with many smaller family-owned agencies falling victim to takeover. The number has fallen from 301 in 1981 to 199 last year.

The number of members' agents fell from 137 in 1990 to 111 in 1991, while the number of managing agents was reduced from 152 to 138. This year, the trend has continued.

Larger members' agents have forced rationalisation by starving inefficient syndicates of capital. By making the allocation of Names to syndicates

Continued on facing page

LLOYD'S OF LONDON IN WORLD INSURANCE 3

The chairman discusses his troubles with **Richard Lapper**

The unflappable man in the hot seat

"SO MUCH venom without facts. So much outpouring. The market is very numb," says Mr David Coleridge, chairman of Lloyd's.

"They have never been treated like this before. They are very miserable," he adds summing up the demoralisation at the Lloyd's insurance market.

Certainly both Lloyd's and Mr Coleridge have had a rough ride since he took over as chairman of Lloyd's at the end of 1990. Last year, his first in office, was bad enough as the market posted its first losses for more than 20 years when it reported its 1988 results in June.

This year will be far worse. As Lloyd's prepares to report record losses for 1989 the market has been subject to ferocious criticism from loss making Names. During February a highly effective publicity campaign by Names' organisations has left the market enveloped in a cloud of bad publicity.

Increasingly Mr Coleridge himself has come under attack.

Trevor Humphries

David Coleridge: last month, market gossip predicting his resignation had not percolated up to his office at the top of the Lloyd's building, and he says he intends to complete his term of office

Unimpressed by his displays of sympathy with their fate, angry Names who have been quick to point out the contrast between their own difficulties and Mr Coleridge's own immense personal wealth – earned in 30 years underwriting at the market.

His image – his old Etonian background and style – have sometimes undermined his ability to present Lloyd's case in the media. And he has been an obvious target for those Labour MPs who have joined in a campaign of Lloyd's bashing in the House of Commons instigated by Conservatives who have lost money at the market.

Even some of Mr Coleridge's strongest erstwhile supporters, the successful businessmen who head up Lloyd's bigger agencies and brokers, have directed their frustration about Lloyd's problems in Mr Coleridge's direction.

But for a man at the centre of a crisis Mr Coleridge maintains a remarkably unflappable air. Last month, market gossip predicting his imminent resignation had apparently not percolated up to Mr Coleridge's spacious office at the top of the Lloyd's building.

Simply posing the question of resignation was "silly", said Mr Coleridge. "I've been asked to be chairman of Lloyd's for another year and I've done two months," he says insisting that he intends to complete his term of office. There had been no letters calling for his resignation and the Lloyd's Council had not indicated that it wanted "a change of captain".

If the Council was to say "look chairman we know you're doing your level best *but quite honestly your level* best isn't good enough so do the decent thing or we've got to throw you out", he would "of course think hard about it," he said.

In the meantime, he was aiming to re-establish morale and confidence at the market: "If everyone goes on running down this business here, people will begin to say they don't want a Lloyd's policy. The whole thing will be in a state of total disarray and that will be an absolute disaster."

An initial goal was to "kick to death" the allegations raised by MPs that market insiders were benefiting to the detriment of outside Names. Mr Coleridge had appointed Sir David Walker, the chairman of the Securities and Investment Board, to head up an investigation into the charges. Sir David would look carefully into the mechanics of the "spiral", the way Lloyd's syndicates and London market companies insure each other *against catastrophe losses*, which – it is alleged – has systematically favoured *working Names*.

Sir David's independence and integrity was such that if he were to find that the allegations were unfounded this would be accepted. "I needed a man who is so white that snow white looks dirty," said Mr Coleridge. "If Sir David puts his mark on a document there is no need to go further."

If on the other hand the investigation were to discover that "it is true in a section – however small – of our society that somebody had been doing something that they shouldn't", Lloyd's own regulatory machine would be brought into action. "We will either demolish the accusations or get hold of the wrongdoers and string 'em up."

But for the moment at least Mr Coleridge has little to offer Names facing large losses and insists that these must be met even if, by paying, Names are driven to the mercies of the hardship committee. In particular, Lloyd's would resist legal moves by Names to prevent draw downs on their deposits. This threatened the *"lifeblood of our operation"*.

Names were perfectly free to sue but must pay claims first. *"We can have 'can't payers'* but we can't have non-payers who are wilfully trying to prevent us *meeting our* obligations." The action by more than 790 Names, *represented by solicitor, Mr* Michael Freeman, would be resisted "vigorously".

"We'll fight the case for ever and a day. If on some technicality they get a result *that is damaging – then* we'd have to apply to the House of Lords at once." The best *answer for* Names was to trade out of their difficulties – by paying past losses with future *profits* – if at all possible.

He described 1989 as a "horrific catastrophe year on a *low rate basis*" and said the damage had been done. Claims from US asbestosis and pollution were a problem but "Lloyd's was better reserved than practically any other insurance operator". A few point profit would be shown for 1991 and with rates now hardening better times were on the horizon for 1992, 1993 and 1994.

In the longer term the implementation of the recommendations of the market task force which reported in January would improve the market's efficiency and profitability. Working groups were meeting to study ways *in which the* recommendations should be implemented. Sir Jeremy *Morse was heading up one on* reforms to the way Lloyd's is governed.

There had been consternation in the market at Mr Coleridge's initial rejection *of the separation of the* regulatory and business development functions of the *Council as* "codswallop and absolute hot air". He now acknowledged that the *rejection* had been a *mistake*, even though he belived the reasons behind it – potential *delays to the implementation* of other task force recommendations – were valid.

When the "governance question comes up it can't be settled quickly. I tried to settle it and it wasn't acceptable. But still that is now water under the bridge. I don't mind changing my mind. I don't find it embarrassing – I don't find I've lost face."

Early days: when Lloyd's was a coffee house – a caricature dating from 1808 **See: the coffee-house spirit survives, Page 6**

Continued from facing page

dependent on the adoption *of management changes*, members' agents pushed two managing agents – HG *Chester and Secretan* – into difficulties.

Chester ceased trading in *mid-March. A number of* agency groups have taken the opportunity to expand. *Sturge Holdings, Lloyd's* biggest managing and members' agency which *manages more than 10 per* cent of the market's capital base and has grown rapidly *through a series of* acquisitions in recent years, took control of Secretan *Agency last October*.

Octavian acquired the Evennett & Partners agency. *Castle Underwriting* – whose activities until recently have revolved around the highly *successful syndicate 839*, which specialises in financial and liability risks, has *launched an ambitious* expansion programme, taking over Devonshire and JH Davies Agencies. It now manages underwriting capacity in excess of £200m.

A fourth agency, *Hayter* Brockbank, has also increased its capacity strongly but this has been largely by building up its existing syndicates. The leading 10 managing and members' agents control nearly half the market.

In 1992, the leading 10 managing agency groups will manage about 42 per cent *of the market's capacity, while* the leading 10 members' agents will handle over 46 *per cent of the capital* supplied by Names. Three combined agencies manage *a fifth of Lloyd's capacity* and about 18 per cent of the capital supplied by Names.

These developments should allow greater efficiency in the market. The task force *identified the fragmentation* of the Lloyd's market as one of the reasons for its high and *uncompetitive cost base*.

Its report, *Lloyd's: A Route Forward*, showed that between 1982 and 1990 *direct* syndicate expenses grew by an average of 19 per cent per year to reach £770m in 1990, compared with £200m in 1982. The task force estimated that *Lloyd's costs overall* – which in 1990 also included £1.37bn paid in brokerage commissions – were a third too high and inhibited the market's ability to underwrite business profitably.

The task force calculated that a reduction in the number of syndicates at *Lloyd's* to 225 could reduce overall expenses from 6.2 per cent *to 5.2 per cent of gross* written premiums.

It said Lloyd's costs had risen for several reasons. The introduction of a more rigorous system of *self-regulation after the* Lloyd's Act of 1982 led to improvements in the *record-keeping of both* syndicates and agents, increased paper work and *a rise in staff employed*.

Across the market, agents have *made significant investments in computer* technology. Underwriters' salaries – which agents were *obliged to publish for the first* time by Lloyd's last year – are too high. More than a third of the 354 syndicates active in 1991 paid underwriters more than *£100,000 a year in 1987*, the first year for which figures have been published. Some underwriters worked for two or more syndicates earning extra money.

During the boom years of the mid-1980s these problems were obscured by the growth and the profitability of the Lloyd's market as a whole. Since the fees paid to *agencies by syndicates reflect* the amount of premium income a syndicate receives and its profitability, the income received by agents rose sharply from 1980.

Since 1988, when the market slid into the red and the total number of Names *began to leave Lloyd's*, syndicate managers have become much more *conscious of the need to* control and reduce costs, but the change in management *thinking has been slower than* necessary, partly because the impact of the losses has *been delayed as a result of* the three year accounting system used at the Lloyd's *market. It was unclear, for* example, until early last year that losses would be recorded *in 1988*.

LARGEST MEMBERS' AGENCY GROUPS BY ALLOCATED PREMIUM LIMIT 1991 (£m)

Rank	Group	£m
1	Sturge	1,278.27
2	Sedgwick	727.88
3	London Wall	429.44
4	Fenchurch	483.71
5	Willis Faber & Dumas	457.63
6	Octavian	431.88
7	*Jardine*	372.13
8	Murray Lawrence	369.16
9	Anton	307.73
10	Wellington U/A	300.72

Source: Lloyd's Membership Department

LARGEST MANAGING AGENCY GROUPS BY GROSS CAPACITY 1991 (£m)

Rank	Group	Capacity
1	Sturge	1,242.44
2	Merrett	625.06
3	Wellington	497.00
4	Murray Lawrence	447.55
5	Bankside	356.60
6	Janson Green	334.96
7	A J Archer & Co	330.06
8	Methuen (Lloyd's U/A)	328.13
9	Three Quays	321.79
10	Wren	317.90

Source: Lloyd's Membership Department

Lawyers in US and Europe have a field-day, writes **John Authers**

A blizzard of litigation

WELL OVER 1,000 Names are currently involved in legal battles with their agents and with Lloyd's corporation.

It all seems a long way from the friendly spirit which permeated the Lloyd's insurance market when it began. How did it happen?

Few of the litigant Names would deny that they entered the market with their eyes open. But the risks they thought they were taking on involved industrial disasters like the Piper Alpha oil rig explosion, or the wreck of the Exxon Valdez, or natural disasters such as Hurricane Hugo, or the storms which ravaged Europe in October 1987, and again in January 1990.

The fact that all of these events happened in quick succession made things very difficult for the market.

But Names seem to have been enraged more by the way in which the market protected itself against these risks, which many saw as inadequate, and more particularly by their exposure to risks which they barely knew existed.

Asbestosis claims in the US provide arguably the most dramatic example of a risk which Names felt they never understood – exploding oil rigs were one thing, but the personal damages suffered by US employees who caught asbestosis were another.

The field of US liability insurance also produced losses from government-ordered pollution clean-ups for which Names had not been prepared. These led to losses on "long-tail" liability business in which claims emerge sometimes many years after the business was written. Few Names had understood that this kind of loss was even technically possible, and they were certainly not prepared for them.

Bemused reactions were typical: one Name commented that he did not mind going to the races and losing money on a horse, but he did mind losing the money if the horse had been doped.

This probably explains why the first serious litigation involved a syndicate which had reinsured a series of US liability contracts and come seriously unstuck – Outhwaite.

Many of these Names certainly felt that their "horse" had been "doped" following insurance losses of £200m on just 32 reinsurance contracts

Names seem enraged less by the series of disaster claims than by the way the market protected itself against risks which they themselves hardly knew existed

underwritten in 1982 by the one-time star underwriter of Lloyd's syndicate 317/661, Richard Outhwaite. All of these contracts reinsured the liabilities of other insurers, mostly Lloyd's syndicates.

Overall losses for the 1,614 Names on the syndicate amount to more than £200m and are rising. A group of 987 Names exposed to these losses resorted to litigation alleging negligence and breach of contract. They were represented by Richards Butler. It culminated, this February, in an out-of-court settlement.

The Names shared £116m, including £2m for legal costs, between them in a result which Mr Peter Nutting, the leader of the Outhwaite 1982 Names Association, described as a "thoroughly satisfactory outcome to a long and difficult road".

Most of the Names – including the former prime minister Mr Edward Heath and golfer Mr Tony Jacklin – were "outsiders". Members of the syndicate who had not joined in the litigation – mostly working Names or market "insiders" – failed to join the action or benefit from the pay-out.

In another case to have reached a settlement, some 500 Names on the Warrilow 553 syndicate, represented by the solicitors Elborne Mitchell, won a £4m out-of-court settlement including legal costs on

But there are many other actions still under way. A group of 33 Names is suing Lloyd's alleging it negligently failed to close the Oakeley Vaughan agency before the syndicates it managed ran up heavy losses. They are represented by the solicitor Michael Freeman.

About 175 Names, represented by Macfarlanes, from Aragorn syndicate 384's 1985 year have also decided to embark on legal action in a bid to recover insurance losses.

Writs have been issued and served in three other cases. More than 400 Names on Pulbrook syndicate 90's 1982 year, more than 330 of the 570 Names on Pulbrook 334 in 1985 and more than 400 of the 800 Names on Poland syndicates 105 (1985 year) and 108 (1986 year) are all taking action. All three groups are advised by solicitors DJ Freeman and are alleging breach of contract and misrepresentation by members' agents and negligence by managing agents.

More than 790 Names on Feltrim, Devonshire, Gooda Walker and Rose Thomson Young syndicates, represented by Michael Freeman, are issuing motions to seek an injunction preventing Lloyd's from drawing down their deposits. This added a dramatic new legal development to the problem, as it effectively adds up to a refusal to pay for their losses.

Following the decision by Lloyd's to contest the action, injunctions are against the agents, who have agreed to freeze their deposits until the cases come to court. All of these hearings are imminent.

In the US, litigious Names have relied on a slightly different set of legal arguments. They claim that they were systematically misled by the agents who persuaded them to join Lloyd's, and are therefore not liable to pay their losses.

Three Names brought a case in a Chicago district court alleging that agreements signed with Lloyd's and the agents who handle their affairs should not be enforced because Names' rights to the protection of US laws took precedence.

But the Chicago court upheld Lloyd's contention that under these agreements any disputes must be heard in English courts. A motion by Lloyd's to dismiss the entire case is still pending before the same judge. Last autumn, a federal judge in Denver also found that the US courts had no jurisdiction over similar plaintiffs' claims, and an appeal has been lodged against that ruling.

However, a third case brought against Lloyd's and a group of agents by 91 US Names is still awaiting a hearing in the US.

At least 91 US Names allege Lloyd's breached US securities laws when they were recruited. They are represented by Proskauer Rose, the New York firm.

In Canada, about 70 Names – represented by the Toronto law firm McCarthy Tetrault – are in the midst of a case against Lloyd's.

They are appealing against a verdict in Lloyd's favour on a preliminary issue, but have so far successfully prevented banks from drawing down their deposits.

The sums involved in all these litigations are massive, and in many cases the Names have their livelihoods at stake. There is a lack of much precedent in case law for many of the arguments currently being presented, so legal wrangling is set to last for years.

AT THE LAW COURTS: (above) Richard Outhwaite, a prominent Lloyd's underwriter; (right) solicitor Michael Freeman representing more than 800 Names

Electronic dealing has revolutionised the business, writes **Simon Reynolds**

Echoes of the City's Big Bang

TODAY sees the live launch of the first phase of the electronic placing support system for the London insurance market. The system will allow brokers and underwriters to transmit and receive, over the LIMNET network, structured messages which contain the information needed to support the placing of insurance.

Translation software converts those messages to and from a format understandable by the brokers' and underwriters' in-house computer systems. The system is being implemented under the title Joint Market Initiative (JMI), and it represents a significant development in the methods of insurance trading in London and especially at Lloyd's.

It is arguably Lloyd's most important step to date regarding new technology and electronic data interchange initiatives (edi).

It is called the *joint* initiative because it involves the whole of the London insurance market, embracing insurance company members of the Institute of London Underwriters (ILU) who transact marine, aviation and transport insurance; members of the London Insurance and Re-insurance Market Association (LIRMA) who transact non-marine business; Lloyd's syndicates; and brokers in the Lloyd's Insurance Brokers Committee (LIBC).

Important as it is, the JMI should not be seen in isolation from other networking initiatives in the London market, particularly those involving claims handling, launched since LIMNET was set up in 1987. Developments include:

● more than 850 brokers and underwriters have access to LIMNET, utilising more than 30,000 computer terminals;

● 28 per cent of all non-marine, property and casualty insurance claims have been settled over the network by members of LIRMA using ELASS (Electronic Loss Advice and Settlement System) since the system was introduced in November 1988. In 1991 the figure averaged 36 per cent, and it has reached 55 per cent in recent months. In 1991, 81,000 claims advices were notified on ELASS;

● 20 per cent of all marine, aviation and transport insurance claims have been settled over the network by ILU members using CLAMS (Claims Management System) since the system was introduced in July 1990. In 1991, the figure averaged 22 per cent and current usage rates are in excess of 25 per cent. In 1991, 20,169 claims advices were notified on CLAMS;

● both LIRMA and ILU are looking to 100 per cent use of ELASS and CLAMS using a standard claims message system by the start of next year.

Lloyd's has streamlined its claims procedures and the whole market is moving towards a unified electronic claims system;

● regarding signing, accounting and settlement information, around 20,000 transactions per day are being received by LIRMA and ILU members; more than half of Lloyd's syndicates receive the underwriters' signing message (USM) amounting to 6,000 advices per day; 65 broking organisations are receiving daily signings and settlement information from Lloyd's, LIRMA and the ILU. An estimated 80 per cent of daily signing information is now transacted via LIMNET.

Other initiatives allow: outward reinsurance debit and credit transactions to be processed over LIMNET (saving ultimately up to 800,000 pieces of paper per year at Lloyds alone); processing of year-end excess of loss adjustments; electronic mail with links between London market participants and abroad.

The first phase of the Joint Market Initiative will involve all members of the ILU and LIRMA, syndicates from 19 Lloyd's managing agents (around 65 syndicates in all), and some of the larger members of the LIBC.

More participants will join in progressively during 1992 and by the end of the year 19 brokers accounting for 85 per cent of London market business will be on board.

There have been objections from Luddite sections of the industry, but, with support from the task-force, enthusiasm for new technology is increasing

The placing support system will allow the preparation on screen by the broker of a risk package or proposal; the obtaining of quotes from leading and supporting underwriters (the creation by the broker, and confirmation by underwriters, of a Firm Order package); the transmission of a Signed Line message to underwriters confirming the insurance package (a facility for processing Endorsements to a risk package held on the system); the ability to notify and process individual declarations off Line Slips where the leading underwriter has the authority to accept a risk on behalf of other underwriters.

The system allows several tiers of participation. At the lowest level, the placing of a risk will involve face to face contact between broker and underwriter, with the traditional paper "slip" containing details of the risk complemented by electronic provision of a "common core record" (comprising the main details of the risk in a structured format), and other electronic support information.

The paper slip will remain the basis of the contract at this level. At a higher level, face to face contact will utilise an electronic version of the slip, along with electronic supporting information. The underwriter will "write" the line on the system and the electronic information will form the basis of the contract. At the highest level there will be no face to face contact between broker and underwriter, all contact being made remotely over the network. Again the electronic information will form the basis of the contract.

Max Taylor: the screens will underline face to face contact

Dennis Purkiss, Chief Executive of the underwriting division of Merrett Holdings, a managing agent of Lloyd's syndicates, argues that the JMI electronic placing support initiative is "the key to the future of the market".

Terry Hayday, chief executive, insurance services, at Sturge Holdings, another managing agent, and chairman of the Lloyd's network steering group (NSG), argues that "this is the way forward, the way to enable the London insurance market to compete in the next century".

Similar sentiments were expressed in the Rowland task force which argued that developments such as the JMI will "strengthen London's collective appeal as a market and reduce the costs to brokers of bringing business to Lloyd's and the London market companies".

Max Taylor, managing director of reinsurance brokers Willis Faber & Dumas (part of the Willis Corroon group) and chairman of the London network management committee, says that the electronic placing system will support the brokers' job which is primarily "the negotiation of business and premium for our clients".

According to Mr Taylor, a considerable amount of face to face business will be underlined by being able to put the information on the screen. However, there is a "whole range of the business that occurs even in a complicated risk that will be made massively easier by the electronic system, for example endorsements", he says.

Brokers would benefit in two ways – first, higher efficiency enabling increased responsiveness to clients' needs; second, the commercial opportunities to be grasped by individual participants to "utilise the network in ways that will enhance and increase their business".

Terry Hayday says that there have been objections from "Luddite" sections of the market but that enthusiasm is now increasing. "Support for technology in general has been given a great big affirmation by the Rowland task force."

Dennis Purkiss also notices growing support: "In the last six months people have seen the system working [at demonstrations] and there are now more open minds", he says. This enthusiasm has been built up gradually throughout the market since it became obvious that if the ILU, LIRMA, and Lloyd's all took different paths chaos would ensue.

The launch of the JMI should not be seen as rerun of the 1986 "big bang" in the London Stock Exchange. An insurance transaction is generally much more complicated than, say, a share transaction, and the London insurance market offers a bespoke service to clients. It is not possible to force everyone down the same route on the same day.

Comparisons with the "big bang" are also wide of the mark in another respect. The City "big bang" obviated the need for face to face contact between jobber and broker. But direct contact between insurance brokers and underwriters will still be vital in the London insurance market following the JMI launch, although it will not always be ideal in every situation.

Initially, there will be benefits from a reduction in the time required to place risks. For standard risks and simple tasks, such as agreeing an endorsement, underwriters can be presented with the relevant information speedily over the network. Time saved can be spent developing new business, while increased efficiency may allow London to gain business that was previously uneconomic to place there, particularly at the high volume, low risk end of the market.

Underwriters will gain access to important information on risk exposure as soon as the lines are written, rather than having to wait for closing. Also, because the risk information is entered once, there is less scope for mistakes.

Further ahead lies the prospect of integration of electronic placing, claims, and accounting systems thereby providing even greater back office efficiency.

Dennis Purkiss says that electronic placing will "help produce business that we wouldn't otherwise see in Lloyd's via link ups with other networks," such as RINET in Europe and the Brokers and Reinsurers Market Association (BRMA) and the Reinsurers Association of America (RAA) in the US.

Terry Hayday concludes that the market "has got the people, got the talent, and has now got the systems" to support those attributes in the most efficient manner.

Simon Reynolds is a specialist writer on insurance and finance

A crescendo of disasters has hit the market, writes **Trevor Petch**

Acts of God and of man

WITH A wry smile, Lloyd's deputy chairman, Dick Hazell, readily concedes that the unprecedented worldwide string of natural catastrophe and other large insured losses which began with the October 1987 storms in southern England have been "an unhappy" experience for the market.

Since participation at Lloyd's is on a partly-paid basis (Names Action Group chairman Peter Nutting candidly calls it a "barely-paid" basis) a series of large claims requiring prompt settlement will necessarily strain cash flow. Less often identified, but also very important, is the burden of administration as claims successively trigger reinsurance protections.

It is not only Lloyd's underwriters who are affected. Mr Hazell points out: the company market is faced with the same difficulty, and London-based brokers are faced with the task of making collections not just on their doorstep but from companies all over the world.

In the wake of the heavy losses suffered by reinsurers and in the retrocession market (which provides insurance cover to the reinsurers themselves) there has inevitably been a reduction in those willing to underwrite catastrophe business, and the premium which those remaining in the market demand has risen sharply.

According to the traditional insurance cycle, the resulting improvement in the ratio of premium to exposure to risk should restore the attractiveness of catastrophe-level cover,

LOSSES FROM DISASTERS SINCE 1987

Date	Incident	est. loss ($)
1987	Storms in UK	1bn+
1988	Piper Alpha explosion	1.5bn
1988	Hurricane Gilbert	1bn
1989	Hurricane Hugo	4.11bn+
1989	Explosion, Philips Petroleum, Texas	1.1bn
1989	San Francisco earthquake	1bn+
1989	Cold weather, US	500m
1989	Exxon Valdez oil spillage	425m
1989	Earthquake, Australia	[illegible]
1989	Explosion, BASF Antwerp	382m
1990	Storm "Daria"	4.6bn
1990	Storm "Vivian"	3.2bn
1990	Storm "Herta"	850m
1990	Storm "Wiebke"	770m
1990	Storms, Colorado	625m
1990 (Dec)	Snow, hail, tornadoes, US	400m
1991	Forest fire, California	1.2bn
1991	Typhoon Mireille	3.9bn

Sources: Swiss Reinsurance Co "Sigma" and FT World Insurance Report

provided that the frequency of large losses returns to historical norms.

Major reinsurance companies such as Swiss Re and Munich Re have both expressed concern that this may prove not to be the case, and in such circumstances it is hardly surprising that underwriters at Lloyd's and elsewhere have taken the view that if a general upturn in insurance rates is on its way, it is preferable to wait and take advantage of more predictable and less inherently high-risk business.

The possibility of a long-term change in weather patterns as an effect of global warming is only one of the issues involved. As a result of the development of manufacturing processes and the organisation of both industrial and service operations, losses from man-made causes such as big fires or pollution incidents which approach those associated with natural catastrophes such as hurricanes or earthquake can now be regarded as inevitable.

The first industrial accident to generate an insured loss of $1bn was the explosion on the Piper Alpha oil platform in the North Sea in 1988, followed in 1989 by another at a Phillips Petroleum plant in Pasadena. In both cases, an important element in addition to the concentration of value represented by expensive equipment was cover for loss of business as closure of centralised production facilities disrupted related areas of production.

The chemical industry provides an almost insoluble problem for the insurer in these terms, Mr Hazell points out. Under normal conditions, the world market will be in a state of marginal oversupply. A single major loss will transform that to undersupply, which a second will multiply, creating a level of exposure to which the insurance cover was not designed to respond.

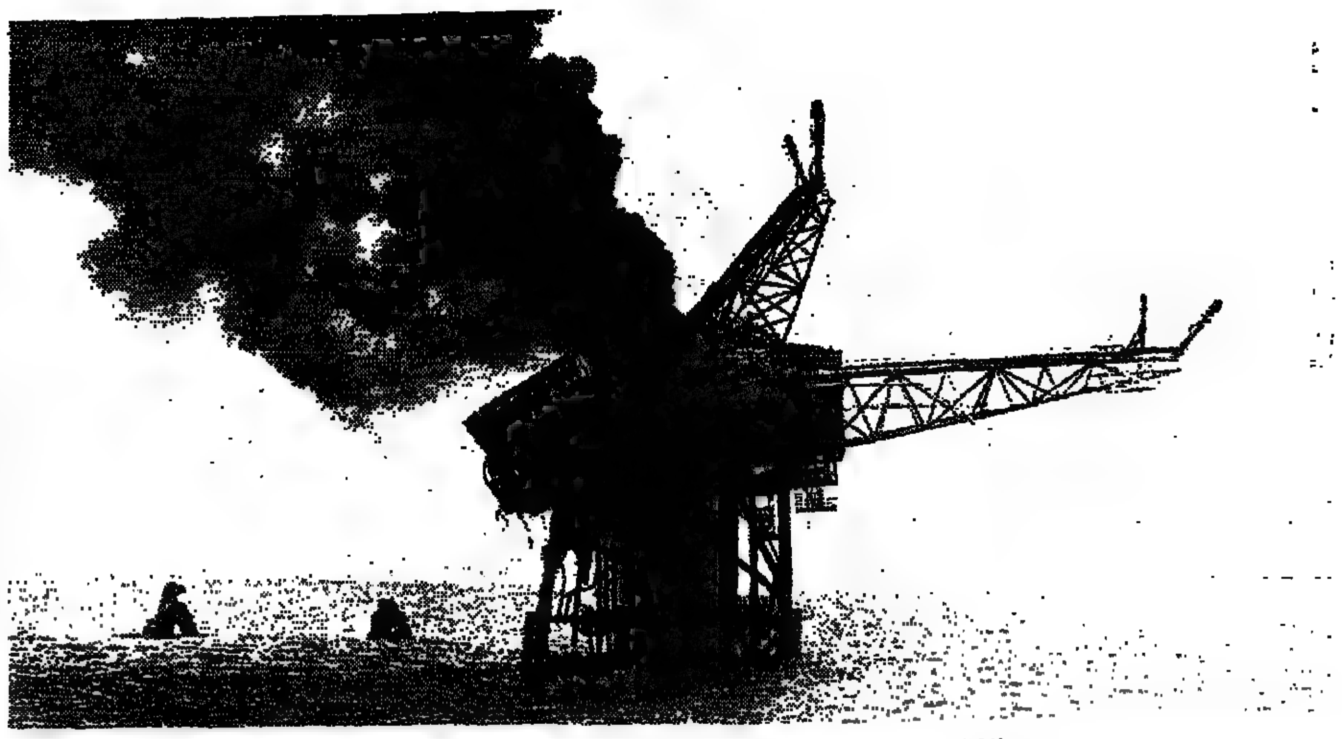
The same development is observable in the service sector with the development of very large retail units and centralised distribution networks.

Not all insurers and reinsurers of catastrophe business have withdrawn from the market.

Mr Hazell continues to underwrite catastrophe business in the same basis as he has since 1985, although since the spectacular market-wide losses of 1988 he has done so on a basis of greater premium income and lower exposure.

Mr Hazell's syndicate also carries its catastrophe book without reinsurance. Instead, the overall exposure to losses from natural catastrophe is limited, and the effect of a loss on the overall results of the syndicate mitigated by a broad spread of other business – a classical Lloyd's underwriter's approach.

In Mr Hazell's view, there is no reason why such a first reinsurance account should not form part of a prudent underwriter's book, nor part of a prudent Name's portfolio of interests. The number of reinsureds will tend to be small and stable, and each will typically be a relatively major player in the particular catastrophe-prone area. As a result, the client will be more responsive to the reinsurer's needs.



The Piper Alpha explosion of 1988 was the first industrial accident to generate an insured loss of $1bn

One example is the Japanese agricultural mutual Zenkyoren, which suffered heavy losses from Typhoon 19 in September last year. "There was no continual worsening of the claim. We knew the exposure and paid out the £200m within eight weeks," Mr Hazell comments, adding that the cover has been renewed at a higher premium. "I tell my clients we never pay claims, but we occasionally lend them money," he says with an ironic laugh.

Reinsurance brokers with a client who has a clean loss record will often argue that it justifies a discount at times when rates in general are rising. "That's a fallacy," Mr Hazell says. "We need to return to the realisation that once a premium is paid and cover offered, that premium has been fully earned." Furthermore, everybody will have to pay towards the catastrophe cover that their insurer needs to buy.

Brokers are trying to find more underwriters who will replace lost catastrophe capacity or provide an alternative.

There are franchise covers, for example, which respond to a dual trigger of individual exposure and overall loss. These Mr Hazell describes as "a perfectly fair and reasonable way of buying reinsurance". So-called financial or finite risk reinsurance is also widely touted, but that is still a weapon which Lloyd's cannot have in its armoury.

Mr Hazell sees no difficulty in brokers rather than underwriters providing the impetus for innovations in the field, which he considers is their job. Lloyd's underwriters have "no idea" what the public, or the insurance buyer or reinsurance buyer wants, as face to face business is done with the broker: "That's how we work."

Although Mr Hazell remains uncertain about the wisdom of reinsuring catastrophe exposures as a speciality or at a secondary level, others are more sanguine.

Despite the well-publicised losses on the so-called LMX spiral, some underwriters who provided such cover in the past continue to do so, although the cost is higher and the cover offered more clearly segmented. Whole account protection can still be obtained, but the terms divide the world into Americas and non-Americas, and the insured perils into elemental and man-made.

In order to trigger the policy, two categories must be affected. This two-risk warranty avoids whole account cover responding to a single insured event such as Piper Alpha, which, its proponents argue, was not what such policies were intended to do.

What of the long-term future of Lloyd's as a catastrophe insurance market? "It's not a question of the long-term. It's here and now," Mr Hazell says. "The sort of market we're in here, where people will back their judgment with their own cash is ideally suited to catastrophe business."

Norma Cohen finds that the coffee-shop spirit survives

Risk in a cool climate

FOR all the high-tech 20th century façade of the Lloyd's insurance market, the heart and soul of the business remain what they were 300 years ago – a group of men meeting in a coffee shop.

Unlike the trading floors of the world's leading equities and commodities exchanges, occasionally the site of frenzied dealing, Lloyd's on a busy day *consists of hordes of* dark-suited brokers patiently lining up at underwriters' "boxes".

Seated or kneeling, they bargain with the underwriters, hoping to persuade each to *accept a portion of risk in* return for the smallest possible fee. Oil rigs, satellites, ships and international trade transactions are all assets which can collapse at any time, causing *devastating losses for their* owners. Underwriters, in short, agree to bear these losses if they occur and charge a fee for their risk.

Unlike London's other major financial exchanges, Lloyd's temperature never reaches fever pitch, even in the most trying times.

On the day of the insurance market's greatest single disaster – the destruction of the Piper Alpha oil rig in the North Sea – unflappable brokers went about their business in the usual fashion.

Calculating how much risk is worth is the job of the underwriter. "It's really much more an art than a science," said Stephen Adams, of S E Adams, head of an insurance syndicate specialising in excess of loss reinsurance.

Mr Adams ought to know. He joined the Lloyd's insurance market as a clerk with an agency group in 1971 as an 18-year old school leaver with *shoulder length hair*. "I *took* the job because it paid £25 a year more than the others," he said. While many underwriters and brokers are clever barrow boys whose education stopped *at 16, a large number are uni*versity graduates and a significant group are public school educated. Patrick Cunningham, an underwriter in Mr Adams' syndicate, joined Lloyd's *after a brief stint as a* milkman following graduation from Warwick University with a degree in economics.

Salaries at Lloyd's vary widely but internal statistics *show that a third of all under*writers earn more than £100,000 a year – a figure that understates actual earnings because it does not include the fees they pay themselves as directors of agencies. Those directors' fees have now been called into question by MPs who have been examining the pattern of losses at Lloyd's.

In 1987, Mr Adams struck out on his own, forming his own syndicate backed by "names" – wealthy individuals who pledge to use their entire personal wealth to cover losses, if necessary. "I see my *main responsibility as making* money for my names," said Mr Adams, summing up his role.

Mr Adams's day, like that of most other underwriters, begins at 7:45am in his office. *By 11:00am he has migrated to* the Lloyd's building, joining streams of like-suited gentlemen parading past the so-called "waiters" in red morning coats and top hats who *staff the Lloyd's floor.*

Mr Adams says publicly what some other underwriters will only say after a few drinks – that some of the industry's woes must be laid squarely at its own doorstep. "Eighty per cent of these guys are unrealistic, and they are driven by ego."

Like himself, many underwriters got their feet wet by working for a large agency group. When they finally strike out on their own, their sense of power leads them to underwrite risks they do not properly understand.

In the early and mid-1980s the sudden surge in worldwide personal wealth spawned a new generation of Lloyd's names, many from outside the UK and who had never previ*ously considered insurance as* an investment. With fresh cash sloshing around, underwriters undercut each other, offering lower and lower premiums for high risk.

"My agency group hired a guy in 1984 to try to attract some American names. They sent him to Georgia with a book of contacts and told him to come up with four Names. He *joined* a golf club and signed up 84," recalled one underwriter.

The influx of cash had an electrifying effect on the lifestyles of underwriters and brokers alike. "A lot of marriages broke up in the early 1980s," said one underwriter, adding that his own had succumbed as well. Too many Lloyd's members – almost exclusively male – used their newfound wealth to take women out on the town.

Meanwhile, underwriters must be distinguished from the brokers, with whom a fragile relationship exists. A broker is a go-between, acting for the insured, whose job is to persuade underwriters to accept the highest possible risk for the lowest possible fee.

One of the most successful brokers is reputed to have earned more than £1m last year, and not for nothing.

One underwriter, recalling the man's superb style, said he *has "a way of patting you on* the shoulder. All of a sudden I was being invited to dinner at Carlton Towers (a posh London hotel) and flying by helicopter to the races at Ascot. He wanted to be my best friend."

It is a broker's job to keep underwriters happy. They are the source of many of the Lloyd's perks – from football tickets to golfing holidays in France to nights out in the West End. "One guy I knew had been driving a 15-year old Ford escort. All of a sudden he had a Jaguar! I knew where that came from," said one underwriter.

On the other hand, Lloyd's is a very small world and blatant bribery will not be effective for long. A broker who habitually urges high-risk low-profit business on underwriters will quickly find himself getting a cold shoulder at underwriters' "boxes".

Regulators of all stripes have been calling for reform of the Lloyd's market for years. In the early 1980s following a particularly devastating set of losses for members of some syndicates, a set of regulatory reforms for Lloyd's was introduced with much fanfare. But those have glaring failed to prevent the sort of losses *Names are now facing and* members now agree the market has finally taken reform to heart.

"Those were early days then," said Mr Reg Brown, of *R.E. Brown said.* "We all thought we were bomb-proof." He said the market was finally taken a more business-like view of itself, a departure from the clubby days of old. "I have always *said* to my lads, 'We're nothing more than a sweet shop.' If we don't open up in the morning, we don't sell sweets. If we don't sell sweets, we don't make a profit."

And the "lads" at *Lloyd's* are getting the message.

Ironically, for all its significance in the world's insurance business, the revolution of the 1980s appears to have touched Lloyd's little in many key ways. For instance, the number of female underwriters can be counted on one hand, although a number are employed as brokers.

But members insist there is no sex discrimination. "Oh we make a special effort to get the ladies. Any one that comes within a whisker of our box on February 14 gets a chocolate heart," said one underwriter.

Trevor Humphries

The Gulf war brought the first Sunday trading to Lloyd's

Lee Coppack on the marine underwriters

Many sense that the market is firmer

LLOYD'S marine underwriters are poised between the announcement of some unpleasant results for 1989 and 1990 and considerable optimism for the current year.

Starting in 1991, rates for most types of marine risk, hull, liability and energy began to harden. It may have been too late to have a significant effect on the 1991 year, but many underwriters believe the market is now firmer than it has been since the early 1970s.

The last closed underwriting year, 1988, produced the largest ever underwriting loss in the Lloyd's marine market – £509.4m – and the first since 1968. Claims, including the loss of the North Sea drilling platform Piper Alpha and reinsurance of the tanker Exxon Valdez, exceeded premiums by 24 per cent.

Announcing the result, Stephen Merrett, chairman of the Lloyd's Underwriters' Association, indicated that the 1989 and 1990 years were already showing larger than expected settlements, substantial claims, and pressure on reinsurers, particularly excess of loss underwriters. Rates had remained soft long after the catastrophes of 1988.

While the market's underwriting profitability peaked in 1986, capacity increased nearly 32 per cent over the following two years, until it began to fall slowly from 1988.

Chatset, a private organisation that analyses Lloyd's results, believes that the marine market could make an overall loss after investment income 30 per cent higher in 1989 than in 1988.

Within the overall results some syndicates have made good profits, while a few have had disastrous losses. In Lloyd's the excess of loss spiral aggravated the effect of catastrophes. And for over a decade different marine syndicates have needed to increase reserves for old years of liability business in the US.

But the fundamental problems are not unique to Lloyd's and have affected all marine insurers. They are, according to Stephen Merrett, inadequate rates and a simultaneous deterioration in the claims experience, largely a result of falling standards of ship management.

Over the 1989, 1990 and 1991 revenue years, the London company marine market paid 82 per cent more claims than it received in premiums. While marine reinsurance has usually been good business for UK-based companies, 32 reported a loss ratio of more than 300 per cent for risks written during 1988 after three years.

The mutual P&I clubs which insure shipowners' liabilities suffered a sharp deterioration in claims starting in 1987. The largest of these mutuals, the UK P&I Club, with over 20 per cent of the world fleet, reserved $618m (£351.4m) for all outstanding claims at the end of its 1989 year; by 1991 the figure had risen to $839m (£490.6m).

LLOYD'S MARINE MARKET ALLOCATED CAPACITY

Year	Capacity (£m)	% change
1986	3,888.7	
1987	4,648.9	+19.6
1988	4,739.8	+2.0
1989	4,521.4	–4.6
1990	4,258.0	–5.8
1991	4,099.0	–3.7

Source: Corporation of Lloyd's

An informal study by the Norwegian broker, Henschien Insurance Services, last year shows what had happened. The daily cost of the hull and liability insurances for a very large crude carrier (VLCC) with a constant hull value of $40m had fallen from $4,181 per day in 1971 to under $1,000 by 1990.

These calculations were based on hull rates from Scandinavian insurers, who have been major competitors of Lloyd's. It is widely claimed, however, that some Lloyd's syndicates wrote reinsurances for overseas competitors at rates which allowed them to undercut London. Between 1984 and 1989, Lloyd's share of the world marine direct market slipped from 20.5 to 17.5 per cent.

"They have given away their own birthright," said David Lentaigne, managing director of broker Alexander Howden Marine. "Can they recover it? The next two years are make or break."

A drop in capacity internationally, including a near disappearance of catastrophe excess of loss reinsurance, finally strengthened the position of the remaining underwriters. Rates and deductibles have increased materially; policy conditions are much tighter. Lloyd's own marine capacity dropped 13.5 per cent between 1988 and 1991, and some familiar names are disappearing.

On renewal for 1992, the $40m VLCC's insurance costs would have risen to over $3,000 a day and the owner's deductible would have doubled.

Last summer brokers were unable to complete one of the largest facilities in the London marine market, the energy master lineslip, on which many of the world's largest and most expensive offshore facilities had been written. The limit of cover for any one unit had reached $850m in 1988/9 (£497.1m), but last year even $500m (£292.4m) could not be placed.

When the excess of loss reinsurance for the pool of international P&I clubs, who cover the liabilities of over 90 per cent of the world's seagoing tonnage, was renewed in February, the retentions increased, the top limit reduced and rates went up between 81 and 144 per cent depending on the type of ship.

"The collapse of the reinsurance market is a very healthy thing," commented leading underwriter Ian Agnew of the Wellington Underwriting Agency. "It forces people to think very clearly about the way they are writing business as they know they are running their own risk."

Although Lloyd's lost part of its share of the direct marine market, the task force looking into Lloyd's future said: "It continues to be seen by brokers as the clear leader in marine and aviation, although in both markets it faces intense competition from the company markets."

Late storms: 'The Loss Book' – a sketch made at Lloyd's for The Illustrated London News, published in January 1877

Besides improving rates and conditions, marine underwriters in Lloyd's and the London market took advantage of their stronger position to tighten terms of trade with the aim of improving the cash flow from brokers. They also introduced a new warranty giving underwriters more powers to require surveys of ships not considered in satisfactory condition.

There is still competition on some risks, particularly cargo, though even this often difficult class of underwriters has been tightening terms of cover and not renewing the least profitable facilities. A few shipowners have moved their insurance out of London altogether. There is still enough capacity in other markets, but it means that Lloyd's underwriters are refusing to cut prices to gain premium.

Leading underwriter Richard Youell of the Janson Green agency says there is now more cohesion among the underwriters. He stresses the importance of underwriters taking a market perspective which will ultimately work to the good of their names.

"The concept of spread preached by members' agents means that many names will be on most of the major marine syndicates; when they compete among themselves on price, the member will pick up the business at the lowest possible price."

Marine underwriting years remain open for three years because it takes that long for a fair picture of the result to develop. It will be some time, then, before it is clear whether 1992 has marked a critical point in marine underwriting.

Stephen Merrett thinks that the improvements may last a little while. "I cannot believe that the amount of money being lost will be forgotten overnight.

☐ *The writer is a marine insurance analyst*

Lynn MacRitchie looks at unusual risks

From Pavarotti to Nessie

LLOYD'S has long prided itself on being the market where anything can be insured. Appropriate parts of actors and sports personalities, voices of rock legends, quest for monsters in Loch Ness, cancellation of the Olympic games, and raindrops falling on Pavarotti in the park can all be underwritten at Lloyd's.

The attraction of such risks for Lloyd's underwriters is simple – they provide welcome publicity and usually make money. Professional stuntmen, for example, no matter how daring their exploits, make careful plans and take adequate precautions.

Even a more amateurish piece of daredevilry – a voyage from Dover to Cap Gris Nez by a merchant navy officer in a bath tub – was covered, on condition that the bath plug remained in position at all times . . .

In some ways, the writing of such eccentric one offs best defines the hard to define skills of underwriting – having the feel and flair to take a punt on the unknown, and getting the rating right to make it worthwhile.

The first question an underwriter must ask, said one expert in the cover of unusual risks, is "Who is the client, who is the client, who is the client?"

An honest client means that a risk, no matter how extraordinary, has a good chance of being rateable. Lloyd's prides itself on asserting that a good underwriter can put a price on anything and do it in about three minutes, as the broker waits at the box for the underwriter's verdict. The chances are that a rate will be given, for after all, as an underwriter commented, "there's lots of money to be made out of the unusual".

One of the market sectors in which the unusual and the high value come together is the insurance of fine art risks. Some of these are necessarily one offs, such as the huge Van Gogh celebration in Amsterdam in 1990, which was covered for around $3bn, or the latest selection from the Saatchi collection now on show in London which includes a real (dead) shark in a tank of formaldehyde.

There is also a growing market in covering wealthy households whose home contents may include collections of art and antiques. Hiscox Insurance Agencies (HIA), for example, was formed in June, 1990, to underwrite high-value household business for Syndicate 33 at Lloyd's.

Personal insurance is considered to be a major growth area for the Lloyd's market, and those individuals likely to own or occupy high-value property are especially sought after as clients. The 606 High Value House and Contents Insurance available from HIA includes a specialised all risks section for fine arts, covering art, antiques or collectible items. The cover is underwritten by Syndicate 33, which has a capacity this year of £129m.

The risk of raindrops in the park can be underwritten

The syndicate writes the UK's biggest thatched house and fine art accounts and is the leader in Lloyd's fine art risks "from Rembrandts to classic Ferrari cars" with an underwriting team "particularly trained to underwrite all the personal lines of the rich..."

The syndicate's expertise has been built up under the supervision of HIA chairman Robert Hiscox, and illustrates how a personal interest – Mr Hiscox's is in fine art – can lead to a business opportunity.

In recent years, however, as the values of fine art and antiques have risen, so has the incidence of theft. In financial terms, art theft is now second only to the drugs "trade", with an annual turnover reputed to be £500m.

The Art Loss Register, established in October, 1990, with offices in London and New York, provides a centralised computer register of stolen items. A commercial enterprise which works closely with international police forces, its shareholders include representatives of the art trade such as the International Foundation for Art Research, Sotheby's and Christie's. Insurance shareholders include Lloyd's (Lloyd's of London Press), Hogg Group and Nordstern Insurance.

The register aims to deter art theft, aid in recoveries and help the fine art trade avoid selling stolen property by entering stolen items on the database. Auction catalogues and sales can be checked against the database and stolen items located, making it more difficult for thieves to resell them. The register will also reveal individuals who may have insured with more than one company in the hope of collecting on multiple claims.

The hope is that by improving recoveries, deterring theft and preventing fraud, premiums for fine art cover can be held at acceptable levels. The existence of such a service is thus a useful marketing tool for fine art insurers. And it works – since January 1991, the register has assisted in the recovery of paintings by Rubens, Bonnard, Picasso, Basquiat and Twombly, among others.

So with the Ferrari and the Rembrandt safely covered, the chance of a relaxing round of golf being ruined by the cost of celebrations for a hole in one taken care of, and even the likelihood of being hit by space debris while on the fairway covered, what else could go wrong?

Well, something always can. Nicholas Thomson, underwriter of Syndicate 33 tells of the talking robot developed to teach delinquent pupils in a school in Harlem, which had been programmed to scream "Help, I'm being stolen." But when the theft eventually happened, it "just didn't scream loud enough."

☐ *Lynn MacRitchie is editorial manager, FTBI insurance group*

Tom Lynch explores the complexities of the political risk market

London's special expertise

IT IS hard enough to work out the chance of a particular house being burned down or a particular aircraft crashing. But into other kinds of risks have to be factored the actions of governments and of terrorists and criminals.

For Lloyd's, political risks have brought about a profitable niche market for a relatively small number of specialist underwriters.

Insurance against kidnapping and ransom (K&R) is the high-profile area of political risk, but most of the business is older-established, less glamorous and more complex – covering areas such as a change of government being hostile, a bureaucracy causing delays or a central bank slowing down its payments schedule.

Some believe a certain amount of business is still done on an old-fashioned wing-and-a-prayer. Just as an early denizen of the Lloyd's coffee house might back a merchantman to the Indies after supping ale with a merry fellow who said the people had great need of woollen bonnets, so risk analysis is still not fully understood in some areas.

The fact that good risk analysis requires a lot of expensive skilled labour may help explain the relatively small number of significant players in the market.

Mr Kit Brownlees, managing director of Investment Insurance International, a division of Hogg Group, one of the leading players in commercial risks, divides political risk into three main areas – contract frustration, investment and personal.

Contract frustration is loss of payments to exporters, through non-payment by governments or arising from trade embargoes or from new regimes repudiating contracts signed by their predecessors – though not often, apparently, on arms deals.

Some of these risks are covered by government agencies, such as the UK's ECGD, but the private sector picks up business from countries whose governments do not cover certain risks, and from multi-national joint ventures with no obvious domicile.

National agencies deal in contracts paid for in cash, so one fast-growing area for the private market is counter-trade and barter – for example, a company selling goods in return for minerals, or financing a mine to produce minerals.

Edward Creasy: income from K&R premiums did not rise

Mr Brownlees says it is a profitable business. Countries seldom renege on such deals, so the claims record is good, and there is a good stream of repeat business from companies anxious to eliminate country risk from their calculations.

Investment insurance covers confiscation or nationalisation of assets, inability to remit profits and dividends, and conflict in its various forms, from nuclear war to riot.

Mr Nigel Alington, a director of Hogg Insurance Brokers, says investment risk policies are becoming more popular. Poor countries without means to buy products encourage investors to set up factories to make them, with the added advantage of employment, skills and technology transfer. Also, more state-owned companies are being privatised, and foreign investors want their assets protected.

One sideline is insuring aircraft leasing by bank consortia to Third World airlines. A debtor country has no use for an aircraft it cannot fly abroad, and may be able to land in only two or three places at home, so there is a high probability of repossession in the event of default.

The ECGD still does all UK investment insurance for major projects such as dams and power stations. The government will also insure war risk – the private market usually does not do war insurance on land-based assets (ships are different, as they can be moved out of the way).

The advantage of government schemes is that capacity is, in theory, unlimited and they can cover periods up to 25 years – whereas the private market will usually stop at three years. But governments only cover investors of their own nationality, and only on new projects, while a big chunk of the private market's business comes from existing investments.

Even industries such as oil, which have long lead times, will insure privately, renewing annually because, says Mr Alington, they can make flexible arrangements like putting together a large portfolio of risks and insure part of it in the normal way, with catastrophe cover for the balance.

London is the centre of the world political risk market because of Lloyd's, which started by covering confiscation of ships and developed contract frustration in the 1970s. It is covered as marine insurance on capacities up to $150m-$200m per risk and uses other markets to add on.

Mr Brownlees says big contract frustration risks – over $10m or so – need a Lloyd's lead. But capacity has shrunk along with the rest of market and has been replaced by commercial underwriters.

For the future, Lloyd's would like to do export credit insurance, believing that the line between that and political risk is artificial – a working party is looking into it.

Some Lloyd's players would also like to take on the full range of war risks, excluded in the wake of the Spanish Civil War because of the possibility of catastrophe losses. Currently governments cover the range from nuclear war to civil strife, while the private sector ranges from riots to terrorism.

This, says Mr Alington, leaves "all sorts of gaps and overlaps," with "endless grounds for doubt on whether something is covered by a policy". Recent problems have concerned whether war risk insurance covered damage to western assets in Islamic countries by rioters in sympathy with Saddam Hussein during the Gulf war, or looting in Liberia after the civil war there.

He and Mr Brownlees both expect increasing co-operation between the government and private sector – the private market already reinsures some government risks and some governments are reacting against spending a lot of money on export credit schemes which have lost money for years.

Tom Lynch

Gulf war raises profile of kidnap insurance

THE PLIGHT of people detained as part of Saddam Hussein's "human shield" in the Gulf war raised once again the profile of kidnap and ransom insurance, which began to be written in the 1930s, following the Lindbergh kidnapping.

Most K&R policies are taken out with criminal kidnap in mind – Colombia is the world capital with three a day. But hostages can be taken by terrorists demanding ransom in cash or reciprocal action, and by governments such as Iraq's acting outside international law.

Policies reimburse any ransom paid out, and the salaries and other costs to the insured company associated with unavailability of the staff kidnapped or detained.

Detention is defined as a person being held against his will, provided he has not broken the law of the country of which he is a national. It is, admits Mr Edward Creasy, underwriter at Cassidy Davis Underwriting, a difficult line to draw – a murderer is clearly not covered, but where someone is imprisoned for a crime there can be a dispute about whether the case would have stood up in the UK, or whether the charges are false.

Hostage John McCarthy is reunited with Jill Morrell, his girlfriend, after he had been held for five years in Beirut

About 500 of Saddam's detainees were insured against detention, at a loss to the market as a whole of more than $8m. Although the affair raised the profile of K&R, it did not, says Mr Creasy ruefully, raise premium income.

The London market has a big lead in K&R, accounting for $40m of the $70m premiums generated in the world, with Cassidy Davis writing the lion's share of the $40m. In most years, it makes an underwriting profit, says Cassidy Davis.

Premium income is static, and is not expected to grow substantially – although 97 per cent of kidnaps are uninsured, most companies have by now considered, and rejected, K&R policies. Any growth is expected in specialist areas, such as emergency political repatriation.

There are conditions on a K&R policy. Perhaps the most important is that the policy becomes void if its existence is disclosed – this prevents a company going to a bank and raising ransom money on the back of the policy, and conceals from terrorists who they are dealing with.

The company must also co-operate with law enforcement agencies; the insurer reimburses the company, and will not fund a ransom payment; there is no reimbursement where an illegal act has been committed and the policy limit is always less than the net worth of the insured company.

In a tie-up with Control Risks, a specialist risk analysis and advisory group, Cassidy Davis clients are offered advice on reducing the risk of kidnap, and a crisis management service if a kidnap takes place, though most companies prefer to pay for such services without paying insurance premiums.

Mr Charles Webb, Control Risks operations director, says inexperienced companies often do not realise the amount of damage a company can suffer from the specialist on a person, with the effect on moral, disruption of business and press attention.

Insurers face the threat of massive liabilities in relation to environmental clean-ups. Some believe there is potentially hundreds of billions of dollars in asbestos property damage claims

Chris Clarke takes a look at pollution cover

Insurers pick up sick planet's health bill

POLITICIANS routinely voice dismay at the insurance industry's reluctance to offer the rest of the economy cover against pollution damage.

It would be such a simple way to safeguard the public and the taxpayer from uncertain pollution costs, if every economic actor could be required to carry unlimited pollution insurance.

A rapidly growing number of statutes, at European Community and national level, is now requiring insurance or equivalent financial guarantees before activities with high environmental risks can operate. Very little thought seems to have been given to where such provision would come from.

Insurers, on the other hand, have spent the last decade trying to survive a tidal wave of unforeseen asbestos and pollution claims under liability policies written long before anyone anticipated such things.

More than £5bn has been paid out of the London market on asbestos bodily injury claims and the annual totals are only just beginning to peak. Behind that, there is a battle to resist what some see as potentially hundreds of billions of dollars in asbestos property damage claims.

In addition to these concerns about asbestos, insurers are also facing the threat of massive *liabilities in relation* to environmental clean-ups.

So far, the claims in this area are largely confined to the US, where insurers are fighting in the courts to show that comprehensive general liability policies (CGL) with "sudden and accidental" exclusion wordings should not have to cover clean-up costs at "Super*fund" hazardous waste sites.* (These are areas covered by American legislation of the 1980s which primarily addresses hazardous abandoned sites.)

This is an important battle for the insurance industry. Current estimates for total Superfund costs range between $50bn and $750bn with further billion dollar sums awaiting under other federal and state legislation.

In Europe, EC liability proposals and member state laws are both introducing concepts such as strict, joint and several, and, to some extent, retroactive liability to the environmental field. Governments have been trying to reassure people that the retroactive element would be avoided here, but insurers are rightly sceptical of any such promise. An imminent EC green paper on environmental liability makes it clear in draft that vast sums of money are going to be required from someone to pay for Europe's historic contamination problems.

Some company insurers are offering EIL policies specifically aimed at gradual pollution problems

Already, European insurers know that there are thousands of old public liability policies out there, written on an occurrence basis, that were silent about pollution and will very likely give rise to claims in the long run. Today, most such policies include "sudden and accidental" exclusions, which most insurers think will be more effective than equivalents in the US.

Meanwhile, a small number of company insurers are offering policies specifically aimed at gradual pollution problems, known as environmental impairment liability (EIL) insurance. These require the insured to pay for extensive site investigation and possibly improvement before acceptance, then restrict cover to a *claims-made basis, with strict* policy limits and substantial deductibles.

A UK Chemical Industries Association EIL scheme, known as CEILIF, with a £5m per site limit, was the first in the field, with a similar package for non-CIA members, from brokers Bain Clarkson. These were followed by the largest US carrier in this market, AIG, with a $20m per company limit through its AIU subsidiary, and US rival Reliance is now launching a range of policies through its associate ECS.

While there has been much interest in these schemes, there has been virtually no take-up of the actual policies. Small companies seem to have found the premiums and deductibles too high, while large companies have apparently preferred to retain the risks. Both groups have also been getting a good deal of cover for nothing, out of public liability policies which still lack pollution exclusions.

In that context, the Lloyd's market has established an environment working party, under Michael Payne, recently retired as underwriter of syndicate 386, to look at what can be sensibly provided without attracting ruinous losses. Mr Payne reports that it will examine all the options as constructively as possible, including insurance pools, as already exist in various forms in France, Italy, the Netherlands and Sweden.

*He looks somewhat envi*ously at what has happened in Germany, where he sees a good working relationship between government, industry and insurers "to produce something that is insurable", rather than the vague, unrealistic demands circulating elsewhere.

Meanwhile, a number of Lloyd's underwriters are involved in *separate initiatives* to develop new environmental liability products. One group is looking at the scope for an EIL policy with a higher limit than is currently available, while another, chaired by Special Risk Services, the financial risk liability specialists, is examining cover for banks and other financial institutions.

What no one is going to offer is unlimited cover on an occurrence basis, which provides a guarantee for all time against future pollution damage. Nor will there be much cover for existing operating sites, where insurers are determined to avoid picking up what John Murphy, of Bankside Syndicates, who underwrites syndicate 1156, *calls "the sins of the past". The writer is liability correspondent FT World Insurance Report*

Executive protection is on the rise, writes **Chris Clarke**

Board room defences highlighted

THERE seems little doubt that a key growth market lies in various forms of corporate and personal liability.

A recent survey of the UK market for directors' and officers' (D&O) liability insurance, by the Wyatt Company, management consultants, estimated that total premium income in the UK for D&O policies had risen from £20-25m in 1989 to £40-50m in 1991. Most insurers in the market seem to think that this is about right.

Despite this rapid growth, UK and European take-up of D&O cover lags far behind demand in the US. "In the US, you won't get directors sitting on a board if D&O insurance is not in place," according to Philip Foley, managing director of brokers Minet's professional services unit. Yet a series of pressures in recent years has been driving Europe in the same direction.

In Britain, Minet identifies more than 200 offences in the Companies Acts, where directors and officers can be held personally liable, with more under the Health and Safety Act 1984, the Financial Services Act 1986, the Company Directors Disqualification Act 1986, the Insolvency Act 1986 and other legislation.

This piercing of the corporate veil has been highlighted by a series of court cases, including not only Barlow Clowes, Blue Arrow and Guinness, but also the less spectacular 1990 case involving Caparo Industries, in which auditors were held not to be liable for misleading representation of an acquisition target's financial position. Although many expect the Caparo ruling ultimately to be overturned, it is still seen as a milestone, signalling a shift in liability from company management, after a long period when litigation seemed to be directed towards accountants' professional indemnity (PI) insurance.

In a period of high mergers and acquisitions activity, such as the mid-1980s, or of recession and company failures, such as today, the risk of such litigation is high. Mr Foley detects a worrying tendency to assume that if something goes wrong it is not a risk for investors but one for which management or professional advisers must be held responsible. "Auditors have been punished in some situations," he says, "because either they were the only party left on the scene or they were the only ones who had taken their responsibilities seriously enough to have maintained adequate insurance."

Apart from Caparo, a lot of attention has been attracted by a 1991 case under the Insolvency Act, in which two directors of a small company were found personally liable for £417,000 for breach of fiduciary duties under the the Act's "wrongful trading" provisions.

"Small companies are terrified of Insolvency Act exposure," according to Reg Brown, of Octavian Underwriting, who underwrites syndicate 702. He is aware of several hundred cases pending under the Insolvency Act.

Beyond that, there is the European Community's proposed fifth Company Law Directive, which would introduce joint and several liability and a reversed burden of proof. This has been delayed for years, primarily because of the UK's objections to quite separate provisions for inclusion of worker representatives on company boards. Parts of this directive worry even the Americans, according to Mr Brown.

Despite these risks, most companies in the UK do not yet purchase D&O cover. Hayley Shaw, financial risks underwriting manager at Sun Alliance, estimates that there are still probably less than 10,000 D&O policies in the UK. The Wyatt survey found that the buying of such insurance was directly related to company size. In its sample, 74 per cent of firms with turnover above £100m had D&O cover, compared with only 6 per cent of those with turnover below £5m.

At present, the UK market is led, in terms of premium income, by two American groups, AIU and Chubb, with Lloyd's third and Sun Alliance emerging in fourth place. In terms of policy count, however, the survey found Sun Alliance overtaking Lloyd's since 1989, to take second place behind AIU.

This reflects, Ms Shaw argues, the fact that her company has the widest branch structure in the D&O market, allowing it to pick up a much wider geographical spread of business, including many small companies.

Lloyd's, however, remains ahead by premium income; and Alec Sharp, of Castle Underwriting Agents, who underwrites syndicate 839, can see real advantages to the policyholder from insuring this kind of personal liability business with Lloyd's – particularly PI cover, which protects lawyers, accountants, architects and similar professionals.

"I firmly believe that PI is very much a Lloyd's market kind of business," he says. This, he argues, is primarily because of the professional and in-depth claims-handling service at which Lloyd's often excels. Architects especially require a sensitive approach to claims, because they frequently want to retain a client, even where he makes a claim against them.

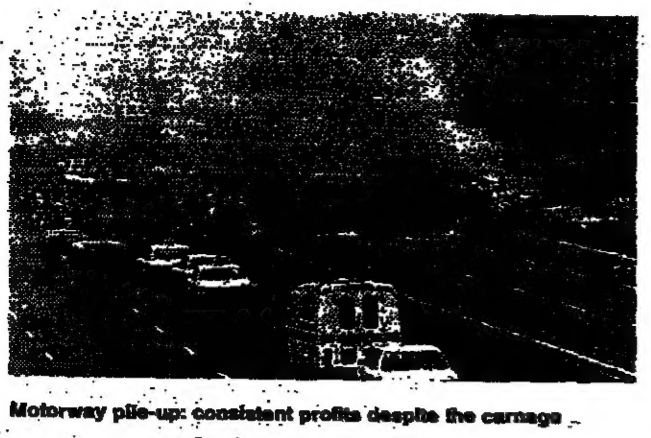
One trend that is emerging is a cross-over between PI and D&O cover, in the form of management indemnity insurance. Minet are offering this, with Mr Brown the lead underwriter. It is aimed at accountants employed within companies, as opposed to independent professionals, giving them individual liability cover, either in addition to, or in advance of, company D&O insurance.

In the long run, Mr Sharp foresees an increasingly sophisticated approach to this kind of insurance. "Insurers are going to know much more about the people they insure," he says, with a more scientific approach to the risks.

Mr Brown warns that the D&O market could be heading for disaster if the growth is seen as an easy way of making money. "This is a long-tail class of business, where the average claim stays outstanding for five to seven years," he argues. He sees evidence of the potential risks in Australia, where the market has grown rapidly and there are reported to be in excess of A$1bn (£440m) of outstanding claims.

The private motor business is returning to favour, writes **Tim Dickson**

'Biggest' insurer steps on the gas



Motorway pile-up: consistent profits despite the carnage

THE Lloyd's market, with a 13 per cent share of total motor premiums written in 1990, claims to be the largest private car insurer in the UK.

Excluding fleet business, Lloyd's syndicates probably insure one private UK motorist in five.

Lloyd's pre-eminence has been greater – its market share peaked at 16 per cent in the mid 1980s – and one question now is whether the Lime Street market will retrieve any of the lost ground.

Certainly there should be no shortage of capacity in the next few years, with clear signs already that Names are anxious to increase their exposure to a sector which has produced consistent, if not necessarily exciting, profits.

"Names have tended to devote about 10 to 15 per cent of their premium capacity to motor in the past", says Mr George Johnstone, chairman of the Lloyd's Motor Underwriters Association (LMUA). "I would expect this to rise to 20-25 per cent in the future."

To a large extent extra capacity is likely to be absorbed by premium rate increases, which have typically run at 25-30 per cent for motor over the last 12 months. Nevertheless, although direct writers pose a fresh threat, the worsening solvency ratios of the UK composite insurers provide an interesting opportunity for Lloyds to boost volume growth.

The 1991 results of both Guardian Royal Exchange and General Accident – which showed a substantial drop in the company's motor premiums last year – highlight the point. Lloyd's market, constituted in 1909, is perhaps best known for its wide variety of tailor-made policies, which appeal to groups as diverse as motor cyclists, kitcar and classic car owners, and young drivers.

The operation of Lloyd's motor syndicates is also fundamentally different from syndicates elsewhere: they issue their own policies, endorsements, debit/credit notes and accounts; they investigate, negotiate and pay their own claims; and they normally write 100 per cent of any risk. Nearly all motor syndicates have set up service companies, wholly owned by syndicates' managing agents, to process business which is not economic for brokers to handle.

Volume growth at Lloyd's was particularly rapid throughout the 1970s, following the well publicised failures of companies such as Vehicle and General and Mr Emil Savundra's Fire Auto Marine. The number of syndicates also increased in this period, but has recently shrunk due to cost preasures, mergers and poor performance. Today there are 28 specialist motor syndicates, which write about £800m in annual premiums.

Lloyd's syndicates have not escaped the downturn in the underwriting cycle of the last two years. Mr Johnstone of the LMUA maintains, though, that they have fared better than the composites. "The company sector has had a very rough time, but our emphasis on distribution channels, the more personal relationships we tend to develop with high street brokers, has made for a more tailored risk."

Names on Syndicate 866, for example – Shead Motor Policies at Lloyd's – will make profits on the 1989 account, though according to Mr Peter Routledge, its motor underwriter, they will not be as good as in 1987 and 1988. "It is too early to say what will happen in 1990 and 1991, though I believe that we will make a profit in 1990," he adds.

Shead, which does a lot of specialist fleet business and numbers the Stock Exchange and Bank of England among its customers, says there has been no difficulty attracting Names: capacity for the current year is well up on last year at £47m.

The smaller Holdsure Group, which has capacity to write £26.5m of premiums this year, is expecting 1990 to be more difficult than 1991. "Even though it didn't happen until the 1991 budget the increase in the VAT rate from 15 to 17.5 per cent inflated the cost of 1990 claims," explains Holdsure's underwriter Mr David Poll. "Nineteen ninety-one will be better because rates started to increase from the middle of the year."

Mr Poll agrees that it is the specialist nature of the Lloyd's market which differentiates it from the composites, and which shows up in the results. "The composites have tended in the past to write motor policies for market share, using it as a loss leader for other types of business," he claims.

Lloyd's practitioners, meanwhile, firmly refute the idea that Lloyd's undoubted competitiveness on rates is matched by an unhealthy disregard for service. "This may have been true a few years ago when one or two syndicates, which have now disappeared, gave the whole place a bad name. But it is not true today." insists Mr Routledge. "We couldn't survive with poor service."

Adds Mr Poll: "At one point, about 10 years ago, the market was taking on more business than it could cope with. There were one or two maverick syndicates in those days which cut rates to win business, and then tried to use the small print to avoid paying out on claims. I believe that the level of service given by the Lloyd's market today is actually better than the composites. Most syndicates have developed sophisticated software, and are highly efficient."

While the composites are having their difficulties the direct writers, who use TV and national newspaper advertising to bypass brokers, have emerged as a source of new competition for the business of private motorists.

The LMUA has obtained permission from the Council of Lloyds for syndicates to deal direct with the public in addition to the traditional broker based network, an opportunity which has recently been addressed by the Lloyd's agency group Hayter Brockbank. Hayter says it will be investing £1.8m this year in a new direct response company for motor and other personal lines of insurance, and aims to have 50,000 policyholders by May 1994 and 100,000 by January 1995.

Notwithstanding suggestions in the Task Force report that their superior cost structures may enable the direct writers to eat into Lloyd's share of the motor market, the LMUA's Mr Johnstone plays down the threat. "If you look at the Department of Trade and Industry returns for 1990 they are very, very small," he maintains.

"I don't believe they are the success story that everyone seems to say they are. They only appeal to a certain section of the population, and will end up fighting among themselves for those clients who are persuaded by an advertising approach. Most people prefer to trust the advice of the friendly insurance broker who they meet in the pub."

AVIATION PREMIUMS

Ready for takeoff as 'cheap' cover ends

TALK to anyone at the aviation insurance market at Lloyd's of London and they will tell you their favourite story about how cheap airline insurance has been in the past few years.

"It would cost less to insure a jet aircraft for a transatlantic flight than the cost of fuel needed to circle once around Heathrow", jokes Mr Alan Colls, aviation specialist with brokers Nicholson Chamberlain & Colls in London and chairman of the Lloyd's Insurance Brokers Committee.

A Rolls Royce owner paying the same premium rate as the owner of a jet airliner rate could insure his car for little as £8 a year, quips Mr Ted Jemphry, managing director of Willis Corroon Aerospace, the world's leading aviation broker and another active player in the Lloyd's market.

But everyone in the market – brokers who contract insurance on behalf of airline operators, and underwriters who work for insurers who collect the premiums and pay out when there are claims – agrees that the days of cheap insurance are ending.

Nearly three quarters of airlines renew their annual hull and liability policies on October 1. Most paid increases of between 200 and 300 per cent for their hull cover and up to 100 per cent for liability policies during the last renewal season.

Subsequently a spurt of large accident claims – including the loss of an SAS MD-80 and a China airlines Boeing 747 – in the week after Christmas – has reinforced the determination of underwriters to obtain further increases this year. Claims from both losses amounted to nearly $100m and served to expose the inadequacy of the industry's rating base. Total premiums collected by airline insurers in 1991 amounted to barely $500m compared with claims of over $800m.

The rate rises have signalled a hardening in the market after five years of fierce rate competition at Lloyd's, which has gradually undermined the profitability of the aviation market. Mr John Wescott, the chairman of the Lloyd's Aviation Underwriters' Association, acknowledges that the market has traded at a deficit for at least four years.

Syndicates were attracted to the aviation market by the record profits of £266.3m achieved in 1986. Many of the newcomers had little experience of aviation insurance and simply formed a "supporting market", co-insuring risks which were in practice underwritten by the traditional market leaders.

Competition depressed premiums and increasing claims put pressure on a number of syndicates. Although the aviation market returned profits of £246.2m in 1987 and £154.2m in 1987 and 1988 this was only possible because underwriters had bought reinsurance protection from other Lloyd's syndicates, often at rates that were highly attractive for the insurers buying the cover.

On the basis of airliner insurance, a Rolls Royce car could be insured for £8 a year, the industry says

Short of traditional shipping business as a result of the downturn of the shipping industry, a number of marine syndicates were particularly active in this field.

However, over the past two years heavy losses have led many of these reinsurers to back away from the market leaving aviation underwriters to carry greater amounts of risk on their account. Aviation syndicates will be only just in profit in 1989 and the market could even record a small overall loss when it reports its 1990 results next June.

Many bigger syndicates are increasing their "net lines", the amount of a risk they are prepared to assume on their own account. Tougher operating conditions have exposed the relatively high expenses of smaller syndicates and prompted rationalisation.

The average size of aviation syndicates has grown a number of smaller syndicates who had previously constituted a supporting market to the main players have backed away. Sturge Holdings (which manages five aviation syndicates, including the biggest, syndicate 960 underwritten by Brian Beasley) now controls more than £250m in stamp capacity (effectively capital backing underwriting). This is about a quarter of the whole Lloyd's aviation market.

Five other agents – Methuen (whose Ariel syndicate is one of Lloyd's best known), Wellington, Murray Lawrence, Wren and Archer – control a further £350m in stamp capacity.

Wellington and Murray Lawrence, together with a smaller agency, Barder & Marsh, have pooled the capacity offered by three of their syndicates to support underwriter, Mr Barry Coleman. Talks are afoot to bring a fourth syndicate, managed by Stewart & Hughman, into this arrangement. Other syndicates which are all under pressure to reduce costs and rationalise their operations may follow suit. These trends parallel developments on the London company market.

In November, 1990, the separate aviation subsidiaries of the UK composite companies – Commercial Union, Eagle Star, Guardian Royal Exchange Assurance, Pearl, Prudential, Royal Insurance, Sun Alliance, and General Accident – merged to form the British Aviation Group in order to improve efficiency.

BAG has the capacity to underwrite 35 per cent of airline fleets on its own account, making it less reliant on other underwriters with whom it coinsures most risks.

Indeed, Mr Wescott believes that eventually there may be only four large syndicates and companies underwriting in the London aviation market as a whole. That would lead the way to a more ordered and less volatile market. It might mean the end of anecdotes about Rolls Royces and cheap insurance but it would leave underwriters freer to compete on service rather than price and that might be a better thing for the airlines.

Richard Lapper

Trevor Petch looks at risks in the age of electronic theft

Light fingers on the keys

IN THE early 1920s, an enterprising underwriter and broker called Harrison wrote, on behalf of his five-member syndicate, a number of financial default policies guaranteeing hire-purchase agreements for cars and particularly taxis.

Further premium income could be generated, he discovered, by covering unsold vehicles still on dealers' stocks, and credit instruments drawn up not to fund purchases but for sale in the financial markets. It must have seemed but a short step to the logical conclusion of insuring vehicles which were also imaginary.

Not surprisingly, the enterprise ended in tears. Mr Harrison's book-keeping was as creative as his underwriting. The syndicate was unable to meet its commitments, and its losses were met by a special policy underwritten by every single member of Lloyd's at a guaranteed loss.

The episode was instrumental in the establishment in 1927 of Lloyd's Central Reserve Fund. An even more direct result was a ban, which continues to the present, on presentation in the Underwriting Room of credit insurance covering debts owed to a commercial trader, although this was not universally supported.

Cuthbert Heath, the most influential underwriter of his generation, was a strong believer in credit insurance, but despite his protests he was forced to continue his interest through CE Heath & Co's shareholding in the Trade Indemnity Co (now Trade Indemnity plc).

Mr Heath and his supporters did gain one concession: reinsurance, rather than direct cover, of such credit risks was permitted, and continues to be written.

Furthermore, the restriction applies to commercial risks only. Political risks, where the debtor is a governmental entity, may still be written and Lloyd's is one of the largest markets for such business.

The collapse of the command economies of eastern and central Europe has led to the decentralisation of international trade away from state organisations to individual commercial enterprises, which Lloyd's cannot technically underwrite. If nothing else, this has highlighted the artificiality of the 1923 blanket ban, which sections of the market are lobbying to be modified.

Lloyd's is also a leading source of cover for financial institutions. At the core of this class of business is fidelity and theft cover for banks, enabling protection of cash against the threat of appropriation by employees as well as expropriation by robbers. Such cover is compulsory by law for US banks, and one of Lloyd's early innovations was the Banker's Blanket Bond providing comprehensive protection in one package.

During the 1960s, demand for policies of this kind grew as financial markets increased in sophistication and the type of financial institutions became more diverse. Simple cover for theft of cash on the premises and in transit together with employee fidelity became patently inadequate, according to Alec Sharp, underwriter of Castle Underwriting Agents syndicate 839, and a leader in the financial institutions market.

What had once been staid leading banks in the US and the UK, as well as in Europe, began to develop their range of activity; merchant banks grew in strength; and these were supplemented by an expansion of hire-purchase companies, leasing companies, trust funds and other manifestations of what became known as the secondary banking sector.

The new patterns of business led to the reappraisal of insurance requirements. "Insurance can be proactive or reactive," Mr Sharp comments. "In this case, it was reactive to the situation, but proactive in developing the covers."

By the early 1970s, however, the so-called secondary banking crisis evidenced by the collapse of some of the new financial institutions had indicated that there were deficiencies in the system. From the institutions' point of view, business had grown out of proportion to its underlying technical structure, while insurers perceived that the risk element had escalated beyond that previously considered.

One element, for example, was insurers' exposure to losses which were primarily commercial in nature but contained an element of infidelity.

In one well-known case, a foreign exchange dealer employed by a leading UK clearing bank in Switzerland began losing money. In an attempt to cover his losses, he concealed information from head office and attempted to cover them by further overtrading. When it was eventually discovered, the insured portion of the loss was paid, but subsequently a joint Lloyd's and London company market committee agreed that events of this kind should not be covered in future.

The result was the introduction of the standard wording that actions involving the infidelity of employees would be covered only when they involved "improper personal gain". The analogy with theft was now clear, and together with cover of cash on the premises and in transit, forgery, counterfeit currency and fraud, the primary purpose of the core policy to protect against losses due to criminal activity rather than bad debts or trading losses was boosted.

In a faint echo of the Harrison case, the dangers inherent in covering leasing business were further reinforced in 1975-6 by heavy losses suffered on policies written to indemnify computer leasing companies against the effects of the termination of the contracts. These caused Lloyd's worst results of the 1970s, but they were the result not of fraud but of an inadequate appreciation by most of the underwriters involved of the effects of rapid technological change upon the risk element of the business they were writing.

The development of financial institutions cover is, in Mr Sharp's view, Lloyd's major innovation in the last 20 years, and further refinements have continued. As the international banking system has come to rely increasingly on telecommunications and computer operations, perils covered have been extended to include fraudulent manipulation of telex, fax and "voice-initiated" transfers.

The first computer crime policy was developed by David Newman in 1982, but market conditions at the time were not conducive to innovation. However, the cover has grown in importance over the last few years. As well as electronic communications media, these policies also cover external manipulation of banks' computers.

"The exposures are massive, but the controls are good," Mr Sharp says, since the perpetrator faces the problem of converting the electronic balance into real cash. Most sums stolen in this way have been subsequently recovered not only due to controls against such thefts per se, but because of controls introduced to prevent the laundering of profits from drug dealing and other crimes.

Such cover is now an integral part of any financial institution's insurance package, and includes protection against damage to electronic data, media and transmissions caused by computer viruses.

Trevor Petch is editor of the FT World Insurance Report.

John Authers examines some complexities and pitfalls of becoming a Lloyd's member

Time for boldness – and caution

WHAT do you have to do to become a Name at Lloyd's?

After the events of the last few months, this question sounds like a joke. With so many members of Lloyd's seemingly *desperate to* leave, and losses running at record levels, this does not look like the time to join.

Most professional advisers who assist investors in dealings with Lloyd's seem to accept this. While there is so much uncertainty, and confidence is at such a low level, those who are in any doubt at all should stay out of the market.

However, for the bold, there are two broad reasons why this could be a good time to enter:

- The Task Force Report, would, if enacted, take away unlimited liability, arguably the single greatest deterrent to Lloyd's membership.
- Many expect the market to stage a recovery this year, while the losses for 1989, still unravelling, should soon become more clear, and probably represent the worst that Lloyd's will have to bear.

Becoming a Lloyd's Name would look much more attractive if it meant sharing in a profitable market, with a lid on the total risk taken.

In good times, membership of Lloyd's is still attractive, because it allows people effectively to use their money twice – they take the underwriting profit if there is any, while they are free to derive income from alternative sources with the capital they use to back their membership.

Provided the market avoids its current losses, deciding whether to become a Name is best approached as a problem of personal financial planning.

Mr Edmund Wood, a partner with BDO Binder Hamlyn, the accountancy firm, says: "You need to have a reasonably secure source of income and earnings, and you also need to have easily disposable capital."

But he goes on to caution that some people are too rich to become Names. The benefit of being a Name is that it can utilise assets to produce an extra source of income, at the cost of added risk.

Those who are already comfortably off, and are utilising their *assets to the full, need not bother.* The less wealthy, with a greater need of income, should consider membership more closely.

This is most likely, according to Mr Clive Scott-Hopkins, director of the independent financial adviser Towry Law, for people who have particularly illiquid assets which are difficult to exploit, such as farmland. This does not, of course, apply *for farmers who need the land* as their prime source of income. He also suggests that Lloyd's membership is most appropriate for people who may just have retired, and want to make up the shortfall in their earned income.

Mr Robert Saunders, an adviser on Lloyd's with the private bank Smith & Williamson, differs slightly from this – he suggests that Lloyd's is probably better for younger people, who still have the chance to earn more money to make good any losses they make. *Otherwise, except in the case of* readily disposable land, he suggests assets to back Lloyd's investment should be readily disposable, and should not constitute business assets.

Mr Scott-Hopkins also suggests that it would be a mistake to include one's house in these calculations – the membership is a way of deriving income from an under-*exploited asset. Such assets should* also be disposable – unlike houses. Thus it could be most appropriate for people with land valued at £250,000 or more, which they could countenance losing.

Potential Names must still therefore be called "wealthy" by any criterion. Mr Wood suggests that they should be able to fund reasonably substantial losses for two or three years without it affecting their way of life. Few can say this.

Further, he suggests that there is little point in underwriting for the minimum amount, of £250,000. This limits gains while still exposing investors to the full, unlimited, liability. He therefore suggests underwriting a minimum of £400,000 or £500,000.

However, if the proposal to limit liability to the total amount underwritten is enacted, this would act as a strong incentive for Names to take on rather less risk.

There are other tax-planning measures which can effectively limit the liability for married couples, thanks to the introduction of independent taxation for husband and wife. Mr Scott-Hopkins suggests that couples should rearrange their assets so that one has only £250,000 to his (or her) name. This should not include the house.

This partner then becomes the Lloyd's Name, and has effectively limited his or her liability to exactly £250,000. This measure plainly requires an advanced level of trust, but as most potential Lloyd's Names should be around retirement age, when relationships are relatively stable, this should not represent too great a problem.

If, as is likely, the Name is only a *basic rate taxpayer,* this means that there are less taxes to pay on any profits, which makes the deal more attractive.

A final financial problem is that, in the early years, Names will not have been able to build up adequate reserves to fund any losses. This means that stop-loss insurance, which is now not as good a deal as it once was, could make sense.

Once an accountant has confirmed that Lloyd's membership makes financial sense, the sad story of the current litigations shows that it is vital to take independent legal advice: Mr Richard Astor, a barrister who has written a legal guide to Lloyd's membership, says that Names have a duty to seek full, frank, expert, neutral, independent legal advice. This provides a valuable legal defence against the problems which can emerge later, and proves that Names have taken due care in entering their commitment.

Having taken professional advice, you need to choose syndicates. Effectively, this usually boils down to choosing a member's agent, who *can then* gauge the profile of risks and liabilities you are prepared to take on.

Accountants should be able to put you in contact with a "beauty parade" of member's agents. Mr Saunders suggests that would-be Names should contact at least three agents for a breadth of choice. Some are more independent than others, and there are also differences in the strength of *their contacts* with underwriters and brokers.

Finally, one should act soon, although irrevocable commitments can be avoided until November 30. Sponsorship and application forms must be submitted by the end of August.

Details of members' agents and all charges and paperwork involved are available on request from Lloyd's.

Tom Lynch takes a roll call of top Names

The great, the good and the not so lucky

THE SIGHT of public figures losing their shirts adds spice to the intermittent stories about losses at Lloyd's.

The man in the Clapham bus cares little that people he has *never heard of are in a spot of* bother because of long-tail liability losses arising from asbestosis claims. But when one of them turns out to be a former prime minister – Mr Edward Heath – the complex and abstruse affairs of Lloyd's can become the subject of lounge bar speculation.

It is usually when losses *mount* that the identity of Names is revealed, as they join pressure groups seeking redress or taking legal action. Lloyd's itself does not name Names, arguing that their identity is a private matter, and should not be disclosed without their owners' knowledge.

So when it becomes known that a syndicate has struck losses, attention is focused on the famous.

Their names used to add a touch of sparkle to Lloyd's. When it was known as an aloof, remote, solid, stuffy institution, *reeking of leather* armchairs, port and four-hour lunches, the occasional enrolment of a show business personality, especially one from a humble background, was a sign that anyone could make it into one of the world's most exclusive and moneyed clubs.

In those days, the fact that the super-rich and aristocracy were part of Lloyd's was used *in a low-key way* to persuade sceptical Americans that Lloyd's membership had its advantages. "Solid as a rock, old boy. Good fellows, salt of the earth. Not supposed to say, but titled chaps. Duke of Norfolk, that sort of thing, you know. Can't go wrong."

For many of the rich and famous, as for those who were merely rich, the annual cheque kept dropping through the door.

But, also like other Names, they were not immune to heavy underwriting losses, as the market was hit in the late 1980s by catastrophe and long-tail liability losses.

Even the blue-blooded were not immune – the Duke of Norfolk appears on the 1989 list of Names on the Wellington 406 and 448 syndicates, which were hit in the 1988 underwriting year by long-tail liabilities; the 1989 position is not yet clear.

In the case of Outhwaite, the famous were represented among about 1,000 members of Outhwaite syndicate 317/661 in the 1982 year who reached a £116m out-of court settlement in February of their legal action to recover £200m losses. Mr Heath was an Outhwaite Name, along with the actress Susan Hampshire, Rocco Forte, Tony Jacklin and, before anyone suspected the scale of his misdemeanours, the late Robert Maxwell.

Cynics say Lloyd's is ideally suited to sportsmen and women, to showbusiness stars, to politicians and to entrepreneurs. They say that people who build up their wealth through taking risks understand that there are risks involved in being a Name at Lloyd's.

It is not clear how a distinguished career on the stage, the golf course or the green leather benches of the Commons enhances an individual's perception of financial risk.

The old boy network sometimes became the new boy network in the 1980s, as Lloyd's sought to expand capacity and brought in some of the newly prominent. Critics say this was storing up trouble, since some of the newly prominent were *only moderately well off,* and lacked the wealth to cushion them against a really bad couple of years.

One such case related to Lime Street Underwriting Agencies, the Lloyd's members' agency which is now in liquidation.

Some of the 450 or so Names recruited to Lime Street were placed in some of the syndicates with the worst losses in recent years – many were enrolled on catastrophe reinsurance syndicates managed by agencies such as Feltrim, Gooda Walker, Rose Thomson Young and Devonshire. *Famous or not, Lloyd's has* refused to inform the Names whether it is conducting an investigation. It says such matters are confidential.

Mr Robin Kingsley, who founded Lime Street, was, like his father, a tennis player and a member of the All England Lawn Tennis Club at Wimbledon. He persuaded tennis players to join, including Mark Cox and Buster Mottram.

But it was not just the new showbusiness and sport stars who were among the big losers at Lloyd's in recent years. The 1989 list of Names on the Wellington syndicates has a good *flavour* of Who's Who and Burke's Peerage about it – perhaps the most prominent being Prince Michael of Kent.

There are at least two Dukes – Norfolk and Atholl, the latter a dangerous man to upset, being the only individual in Britain *allowed to keep a* private army.

The roll call goes on through a dozen or so earls, 20 or so assorted viscounts, viscountesses, countesses, marquesses and marchionesses and upwards of 30 Lords. The roll call of lawyers includes a number of judges.

The peers include members *or former members of the gov*ernment, like Lord Denham, who, as Chief Whip in the Lords in 1988, was responsible for turning out backwoods Conservative Lords from boardrooms and country houses to squash a backbench *revolt and ensure* a 134-vote government majority on the poll tax.

From the other end of the palace of Westminster, the Wellington list includes a dozen or so MPs, including Sir Nicholas Lyell, the solicitor general, and a government Whip, Mr Nick Baker. All are Conservatives.

From the diplomatic world there is Sir Ewen Fergusson, Ambassador to Paris, and from sport there is John Francombe, the jockey.

The Wellington syndicates are among a number which have come to grief in recent years, and blue blood and stardom have proved no protection.

Like Wellington, the Poland 105 and 108 syndicates suffered from long-tail liabilities. On the 1989 list of members of 108 was Dame Shirley Porter, the steely leader of Westminster Council, while John Julius (Viscount) Norwich and Sir Freddie Laker are listed in the same year on Gooda Walker 290, hit by catastrophe losses. On another Gooda Walker loss-maker, 299, is listed Mr Edward de Bono, the lateral thinker.

Some of the better known members of the crowded world of Lloyd's – (left to right) Edward Heath, Rocco Forte, Tony Jacklin and Dame Shirley Porter

The underwriting recovery may be about to start, says **Max Lehrain**

Darkest before the dawn?

JUDGING by the news surrounding Lloyd's over the past year, it may seem pointless to consider whether or not to become a Name.

However, many fortunes have been based on the use of a a counter-cyclical investment strategy. Should we then attribute great astuteness to the small number of new Names commencing underwriting for the 1992 account? Or do they merely have an unquenchable thirst for sophisticated gambling?

The market is currently in a phase of losses with £509m losses last summer for the 1988 year of account. Lloyd's reports *three years* in arrears and more are bound to be declared for 1989 and 1990 over the next two years.

The jury is still out on 1991, but it seems unlikely to herald a return to significant profits.

The fortunes of insurance companies worldwide are notoriously cyclical and there are now definite indications of a turn in the cycle. Indeed, it could be said that the sun is rising in the east. Any recovery must be driven both by improving rates and growth in demand.

Last year's Japanese typhoons and the current re-*rating of many marine and* aviation policies are bringing significant increases, but there is still little sign of an upturn in the all-important US property account, despite increasing pressure on the domestic US insurance market.

However, even the US market cannot continue to maintain low premium rates indefinitely and its exposure to junk bonds and real estate losses will add to its loss of surplus in the current stage of the underwriting cycle, which must ultimately lead to a reduction in capacity and an upturn in rates.

There have also been increasing calls for an amendment to the US legal system, the worst excesses of which are perhaps now seen to benefit no one.

So, with firming rates, increasing demand coming from the emerging markets of eastern Europe, and a world economic recovery providing a further boost in demand, the stage could be set for a new era of profitable underwriting.

Regardless of the global insurance market conditions, the prospective or continuing Name must convince himself that the recommendations of *David Rowlands'* recently released Task Force Report really will help to redress the balance in favour of Names' interests.

Syndicates and managing agents can no longer afford the luxury of a cost plus operation. We know there is a move to cut costs, which is commendable, but it so far has had little impact.

Executives of unprofitable syndicates are still earning excessive salaries, despite the losses currently being faced by Names, and no syndicates have *yet deemed it necessary* to reduce their charges to Names.

Over time, the introduction of the Task Force recommendations will help, although they will do little to improve the immediate prospects for profit.

One of the more interesting proposals is the introduction of MAPAs (Members' Agents' Pooling Arrangements) whereby smaller Names will be able to participate in Lloyd's by entering a pool of all, or some, of the syndicates with which their members' agent maintains agreements.

These MAPAs may serve several purposes: they will effectively act as unit trusts spreading Names' exposure across a far greater number of syndicates than would otherwise be possible, which may provide greater protection.

However, the market average is hardly an attractive prospect at present. MAPAs will, however, fulfil one important role – that of providing some visible measure of the skills and professionalism of members' agents, which is *vital if Names are to be given* the opportunity to select their advisers on the basis of performance.

The members' agents community has changed dramatically over the past decade, falling from 271 in 1981 to 111 in 1991, and is likely to shrink further. The fact is that smaller firms are unlikely to be in a position to offer the range and depth of service that future Names will demand. This and the requirement to *remain commercially viable* has led to the current round of mergers and acquisitions.

Many existing members have found themselves in a position of being transferred to new agents so it becomes all the more important that both they and prospective new members examine closely the skills and relative merits of their agent. Historically, most members have selected their agent from a choice of one, having been introduced by a friend or relative, and probably did not fully appreciate that different agents have a different range of syndicates on which they are able to place Names, not to mention their differing policies in respect of size of line on syndicates, markets supported, stop loss, investment advice and agency charges.

It appears to be an inauspicious time to consider being a Name, but many a fortune has been made by using a 'counter-cyclical investment strategy'

Against this background, it is clear that Names must give careful consideration to precisely what their agent or prospective agent has to offer, probably with third party advice and, perhaps most importantly, they should examine the track record of the candidate agencies.

Although much ink has been spilt about the horrendous losses' suffered by some Names, a large number will come through the present difficulties relatively unscathed due, in large part, to the skills of their members' agent.

Once an agent has been selected, probably after interviewing several, the next area to examine must be the costs associated with membership. I have already mentioned that different agents levy different fees, but so do the accountants, banks, insurance companies and stop loss brokers.

Income is but one element of a profit and loss account and significant savings are frequently achieved by those *Names who take the time to* shop around for these items. Advice on these cost saving measures should form part of the service from any members' agent that takes its job seriously.

It is certain that if Lloyd's is to maintain its position in the international insurance market, it must take positive and radical steps to ensure that its capital base, currently provided by the Names who pledge their wealth, is secure and that an acceptable combination of risk and reward is *achieved. Otherwise, it will not* be in a position to take advantage of the recovery in the insurance market that has already begun.

I believe that first and foremost the cost cutting must continue, at both central and syndicate level, to win back the expense advantage once enjoyed by Lloyd's over its corporate rivals and in the area of managing agency charges and ancillary costs to ensure a better deal for Names.

Lloyd's must also ensure that, as it investigates the apparently attractive world of corporate capital, it does not forget the individuals who have been its lifeblood for 300 years.

So, to be or not to be... I believe that if Names appreciate that they are in the business of insurance, and are prepared to take the steps normally associated with good *commercial practice* in respect of cost control and relative performance evaluation, membership of Lloyd's has a great deal to offer as an efficiently geared tax effective business opportunity.

As with any industry, quality management will ride out the present storm and emerge relatively unscathed compared with their less professional or less capable colleagues. With a public assault on costs and perhaps some consideration as to whether self regulation is really necessary or helpful, we may then look to the results of the 1990s with optimism.

The writer is managing-director of Grimston Scott

A series of big US claims have hit Lloyd's hard, writes **Trevor Petch**

The price of a good reputation

WHY has Lloyd's attracted in recent months the intense scrutiny of authorities as diverse as insurance regulators, Congressional subcommittees, the Securities & Exchange Commission and the FBI?

Lloyd's share of the US market is modest in volume terms. Including reinsurance, the US contributed about $3.7bn to its global premium income in 1990, while its domestic nonlife premium income was worth $265bn in 1989, about half the total for the whole world.

In the same year, the US ceded $8.9bn worth of net reinsurance premiums abroad, according to Department of Commerce statistics. Lloyd's takes about 1.35 per cent of all US non-life and reinsurance business, while the 15 largest US insurers each takes a greater share than that of the primary non-life market alone.

The question is not one of quantity, however, but of quality. Lloyd's only operates as if it were a local US insurer in Illinois and Kentucky, but is authorised to insure *surplus lines* – cover which cannot be obtained from an insurer authorised in the state – everywhere except Kentucky and may write reinsurance in all states except Kansas.

Cover taken out with Lloyd's syndicates is often high profile business – from the Golden Gate Bridge on the West Coast to New York's Verrazano Narrows Bridge on the East. Many *Fortune* 500 companies have insurance links with Lloyd's which date back to at least the 1920s, and it is a major provider of cover for US airlines and shipping.

The flexibility of the Lloyd's market in insuring new, unusual or specialised risks is also heavily used. Syndicates at Lloyd's cover the thoroughbreds of Kentucky racing stables and of American Football teams such as the Cleveland Browns. It led the cancellation cover for the Los Angeles Olympics and the National Collegiate Basketball Championships. It insures NASA space launches and nuclear power stations.

Lloyd's is the leading provider of the insurance cover which US banks must have by law. Lawyers, accountants and other professionals look to Lloyd's for their professional liability insurance, and Lloyd's is one of the few markets still prepared to accept US medical malpractice risks on a large scale, which most US reinsurers will not.

In addition, most major US property insurers take out some protection against natural catastrophe at Lloyd's.

Given the publicity, most of it bad, which has surrounded Lloyd's over the past year, concern about Lloyd's ability to meet its commitments is understandable. *Perhaps it is no longer enough* for it to point out that its underwriters have never failed to meet a legitimate claim, or that its US and other dollar-denominated business is secured by a Trust Fund in New York worth $8bn, or that as most of this is invested in US Treasury Bonds Lloyd's is one of the largest private lenders to the US government.

Despite its long relationship with the US market, Lloyd's as an institution is still not well understood outside the insurance industry, however. Lloyd's has its own reasons to be concerned. In 1990, it drew 32 per cent of total premium inflow to the market from the US, the second most important single source after the UK itself although it represents a decline from the mid-1980s when the proportion was closer to half. *In addition*, US names provide about 10 per cent of underwriting capacity.

Unfortunately, the US has also been responsible for many of the major losses which have periodically caused the market problems. When it made an overall loss in the mid-1960s, the trigger was Hurricane Betsy. In the 1970s, the largest losses were caused by insuring US computer leasing companies.

This year Lloyd's will report the losses on the 1989 account, the worst in its history. The main factor will have been Hurricane Hugo, which cost insurers over $4bn and Lloyd's over $1.5bn. In the same year, the San Francisco earthquake cost $1bn, with Lloyd's share close to 15 per cent, and it also met part of the bill for a $1bn explosion at a petrochemical plant in Texas, and the Exxon Valdez oil spill.

Lloyd's overall 1988 loss – the first since Betsy – was largely due to an extra contribution of $575m on old policy years. Asbestos- and pollution-exposed risks also caused the losses which led to the most high-profile legal action by names against their agents at Lloyd's, the well-publicised Outhwaite case.

In 1906, the innovative underwriter Cuthbert Heath ordered claims from the San Francisco Earthquake to be paid even if the paperwork was not completely in order, and so laid the foundation of Lloyd's reputation and business expansion in the US.

In 1981, again in pursuit of customer loyalty, leading Lloyd's underwriters signed the so-called White Paper memorandum with leading US brokers, agreeing to treat reinsurance policies which they had written to cover US primary insurers of asbestos-exposed policies as if they became operative when an overall level of loss had been reached from a series of claims rather than a single loss.

Another Lloyd's landmark: San Francisco's Golden Gate Bridge

In hindsight, it was the first step in what Lloyd's deputy chairman Richard Hazell now describes as "in a way, the biggest catastrophe that has ever hit the insurance industry".

David Coleridge, Lloyd's chairman, said last year that the market had "always sought to take America as we find it, whether we like what we find or not, and adapt as we can".

That attitude may not last forever. However difficult, Lloyd's might just possibly find it easier to adjust to life without US business than US business would adjust to life without Lloyd's and the deep pocket its names have come to represent.

The brokers seek wider horizons, writes **David Barchard**

Heavyweights in the ring

ON a typical morning at Lloyd's, underwriters sit on their clusters of benches, quaintly known as boxes, waiting for brokers to arrive with new business or details of claims.

An outside observer might be forgiven for thinking that most of the work of keeping the market going rests in the hands of its 220 brokers. This perception is not quite right. Brokers are still the main distribution outlet at Lloyd's, closely bound up with the fortunes of the market, but they are by no means all-important as they once were.

Lloyd's offers face-to-face contacts and the chance to spread risk, and occasionally the opportunity for brokers to get together against a client who is trying to play the field. In general, however, brokers describe their business as savagely competitive, even though they see themselves as offering their clients a distinctive service in much the same way that company lawyers or accountants do.

"The selection of the right broker is very important for a client. A good broker can get a better rate on the same risk than a bad broker would get," says Mr Alan Colls of brokers Nicholson Colls. Brokering at Lloyd's in the 1990s, however, is very different from what it was a decade or two ago when brokers would queue for hours for small amounts of business.

One change is that the two biggest brokers – Sedgwick and Willis Faber – have somewhat outgrown Lloyd's. Both Sedgwick and Willis Faber are among the biggest brokers in the world, along with others such as Alexander Howden and CT Bowring, which are now offshoots of big international brokers, Alexander & Alexander and Marsh McLennan.

Most recently, Willis Faber, long regarded as the most blue-blooded and traditionalist broker on the exchange, followed suit by merging its operations with Corroon & Black, so forming Willis Corroon.

Since the early 1980s, these bigger brokers have become less dependent on the Lloyd's market. After the 1982 Lloyd's Act, they were forced to divest control of the managing agencies which administer underwriting syndicates, on the grounds that there was a conflict of interest as long as they held the roles of both insurer and broker, since brokers act for the client being assured.

Brokers, the main distribution outlet, are closely bound up with the market's fortunes – but they are no longer all-important

That said, the links of the large brokers with Lloyd's remain extremely intimate, and their top executives are usually to be found in prominent places in the governance of the Lloyd's market.

For example, Mr Philip Wroughton, the chairman of CT Bowring, is still a member of the Lloyd's Council, while Mr David Rowland, the chairman of Sedgwick, was given the job of heading the Task Force which last year conducted a searching examination of the market's business structure.

"Lloyd's is still at the centre of the wheel in much of the international insurance market," says Mr Sax Riley, managing director of Sedgwicks. "We have never yet found suitable alternatives."

In some sectors, however, London business is dwarfed by the American market. The biggest four brokers earn less than 15 per cent of their total commission income from business placed at Lloyd's. They get over 50 per cent from retail operations in the US.

They are also vital to Lloyd's. The 20 largest brokers' firms produce about 70 per cent of the $25bn premiums placed in London each year.

"Lloyd's is very important to us, but it is far from the only place in the world where we do business," says Mr Peter Tritton of Alexander & Howden.

"Where Lloyd's is important is that it is a leader. About two thirds of the London market is led by Lloyd's and respect for Lloyd's is very high. If Lloyd's is willing to underwrite something, others will follow in Paris and Zurich." At the other end of the market, there are other changes. Though new broker firms are regularly set up, often by brokers working with the larger houses who want to strike out on their own, the number of firms seems to be contracting as a result of mergers. There are about 60 fewer brokers at Lloyds today than there were in the late 1980s.

Many of these are established with the intention of becoming niche-players in their chosen sector. The stronger smaller brokers are beginning to diversify. Steel Burrill Jones started life as a specialist marine reinsurance broker in the 1970s, for example, but it has latterly expanded into UK retail and wholesale business. This now makes up about two thirds of its total business.

"The cost of doing business is absolutely critical in London these days and as a result you are getting new groupings of brokers and alliances in an attempt to get sales and business in larger units," says Mr Tritton.

He points out that brokers do all the preparatory work on the risk for a particular deal and then present it ready-made to underwriters.

As the interests of brokers have changed, Lloyd's agents have shown concern about their lack of control over distribution. In the late 1980s, when the volume of business being brought to the market was declining, several leading agencies began launching initiatives to win business for themselves, especially in personal lines business where direct marketing is becoming steadily more widespread in the rest of the insurance industry.

At the same time, the rules for service companies are being relaxed. These are owned by the Lloyd's agencies but have their offices outside the Lloyd's building, generally but not always close to the market.

In the UK, the Octavian group has now set up companies in Leeds and the Merrett Group has a Birmingham office. At least three agencies, AJ Archer, Sturge, and Cater Allen, have set up European operations, though they seem so far to be underwriting relatively small quantities of business.

The most radical step so far has been taken by Hayter Brockbank, one of the fastest growing agencies, which announced that it would set up a direct motor insurer to sell motor insurance over the telephone to the general public.

David Barchard on the coming of marketing

Pervasive signs of a new commercial spirit

IN MOST of the world, *marketing and insurance* are inseparably linked. At Lloyd's of London, however, marketing is a new arrival.

Until very recently brokers brought business to underwriters and their agencies more or less unbidden. But there are pervasive signs of a new spirit. Old logos are being swept away and replaced by new ones. Sedgwick and Willis Caroon, for example, have both revamped their corporate image over the last two years.

Sedgwick's "flying Christmas pudding" logo has been replaced by a crisper global symbol. "It gives us more coordination and synergy. Sedgwick people give out the same business cards wherever they are in the world and the corporation receives a stronger image," Ms Julia Fish, Sedgwick's corporate communications manager, explains.

There are other signs of change. In November 1990, Cassidy Davies became the first Lloyd's syndicate to appoint a full-time marketing manager. Lloyd's itself appointed a marketing manager, Beverley Landais, late last year.

Both moves reflect a growing awareness at Lloyd's that unless it develops stronger marketing skills, it has little chance of regaining ground already lost to outside competitors.

Such an attitude would have been almost unthinkable a few years back when the supremacy of Lloyd's was taken for granted and the exchange was shrouded in its own mystique. In January this year, the Task Force report noted that the market needs to development a wider mix of more flexible distribution channels to meet customer needs and competitive pressures in the various markets in which Lloyd's operates.

In the Task Force's view, Lloyd's faces two basic marketing challenges.

One is to capture lost market share and to stem what seems from the outside very much like steady decline. Lloyd's has lost share of world premiums over the last quarter century, even though its overall share stabilised in the 1980s.

Business areas singled out by the Task Force include *direct business, other than* motor, and, more worryingly, direct marine insurance, a market where Lloyd's has traditionally been strongest.

The second challenge is to find new markets and expand into them. But how is this to be done by an entity which itself *consists of scores of* smaller competing units?

In Ms Landais' opinion, the first task is to build up outside awareness of Lloyd's of London as a brand name. Last year, Lloyd's, working with Citigate, spent £600,000 on the first-ever national advertising campaign to enhance public awareness of the exchange.

At a second level, Lloyd's is trying to encourage regional brokers serving particular markets such as aviation or motor insurance to put business its way.

One way of doing this is to organise seminars in which groups of underwriters visit large cities in the provinces and talk to brokers.

An underlying aim in the last few months is the desire to dispel the after-effects of the unfavourable publicity surrounding Lloyd's during the last few weeks.

The authors of the Task Force report seem to have envisaged marketing as an activity to be handled centrally. But at the level of syndicates and underwriters, attitudes are also changing. Underwriters have always been client-conscious, but professional marketing specialists are now also beginning to appear alongside the older generation of underwriters specialising in client relationships.

Several agency groups have set up independent marketing initiatives to bring in new business. Sturge Holdings and A J Archer have set up service or marketing companies. Sturge's Paris office opened in 1990 and Archer has a Copenhagen operation.

These offices are part of a drive to build up business in mainland Europe and other international markets where Lloyd's is less well known than in the US or UK. The Far East is another target for marketing activities.

There is also a lot of ground that can be covered at home in the UK.

Ms. Beryl Hobson is one of the first full-time marketing managers to be appointed by a Lloyd's agency, essentially with the task of developing a *marketing culture* where none had existed before. She joined Cassidy Davies in November 1990. Before then, she had worked at Bradford & Bingley Building Society and spent eight years with Royal Insurance.

With this sort of background in retail financial services, Ms Hobson believes strongly in *focusing on the customer* and his needs.

"One of the first things I made us address was who is our customer – it's a fundamental question, but one we often lose sight of," says Ms. Hobson. "On all Syndicate 582's classes of business our customer is the Lloyd's broker. We're the manufacturer selling to a wholesaler who sells to a retailer."

Her starting point was the need to create a clear branding for Cassidy Davies with a *strong corporate identity. She* selected a plain, rather Classical, logo for the group and then set to work developing sub-brands around it.

Whether or not changes of this sort are merely cosmetic will be hard to judge for some years until it becomes apparent whether or not Lloyd's has arrested the market erosion.

THE EC SINGLE MARKET

A promising opportunity

THE approaching single market is both an opportunity and threat for European insurers. There seems little doubt, though, that Lloyd's, which specialises in large non-life risks, ought to gain handsomely from Brussels' efforts to break down national barriers.

As Mr David Coleridge, Lloyd's chairman, observed recently in a speech to Greek practitioners: "When it [the third non-life insurance directive] comes into force, the insurance markets of Europe will have undergone a revolutionary transformation within a relatively short space of time. EC insurers will be free to transact non-life insurance business in any of the member states, and regulation will be administered by the insurers' home [as opposed to host country] authority."

The so called third "framework" directive to which Mr Coleridge was referring – it got the political nod from EC countries just before Christmas, but will not be implemented until 1994 – is one of the most important pieces of insurance legislation in the single market programme. Its significance for Lloyd's is that Lime Street will be able to write all non-life business throughout the EC from London – without having an establishment office on the ground – subject only to having local claims-handling facilities for third party motor insurance.

The chief benefits of the directive, which also apply to business written through local establishments, will be:

- Technical reserves, which all insurers have to set aside to cover the risks they are writing, will no longer have to be kept in local assets.
- Insurers will no longer have to submit statistical information to host country insurance supervisors, though some records may be required for paying local premium taxes.
- Prior approval of contract wording and rates by local regulators will not be required. Policy conditions will still have to be notified, but only for the purpose of ensuring that the "general good" has been observed in compulsory classes of insurance.

In future, therefore, the Department of Trade and Industry alone will be responsible both for Lloyd's supervision and for receiving statistics of Lloyd's EC business.

According to Mr Barry Gibson, general manager of the international department at Lloyd's, there will still be snags for those engaging in cross frontier business.

The main one will be the tax on premiums levied by many European Governments, notably in Italy, Germany and France, but not by the UK. "These can vary quite a lot", explains Mr Gibson. "The insured has to pay, but under local law it is ultimately the responsibility of the insurer that he does. It means having some local mechanism in place."

About 16 per cent of Lloyd's total premium income already comes from Europe, both in the form of direct insurance and reinsurance. Official attitudes have varied from country to country, but the Lloyd's strategy since the introduction of an EC directive permitting freedom of establishment in 1973 has been to seek Government licences in the more important centres. This has often been a time consuming process, as illustrated by negotiations with Italy and Germany which did not bear fruit until 1986 and 1989.

Licences have often been restricted to certain classes of business. Non-marine was only added in Greece in late 1991 – though the ability to do marine business is long standing – while extensions in Italy to cover aviation, marine, and motor were agreed in mid February this year.

Since July, 1990, Lloyds has been able to do business with most EC countries under the second non-life insurance directive, which extended service freedoms to large non-marine, and marine, aviation and transport risks. As a result, of this an increasing amount of business previously done under licensing arrangements has been carried out directly with the Lloyd's market.

London's pre-eminence as a financial and insurance centre – there are 140 foreign owned insurance companies in the UK – should provide a significant edge in the more open European market created by the third non-life directive. But as the acquisition strategies of the big French, German and Italian players demonstrate, gaining a foothold in each territory may be the key to winning *profitable business.*

There seems little doubt that Lloyds should gain handsomely from attempts to break down national barriers

Lloyd's is constitutionally inhibited from making takeovers, but there is no reason why bigger managing agents *cannot show the way.*

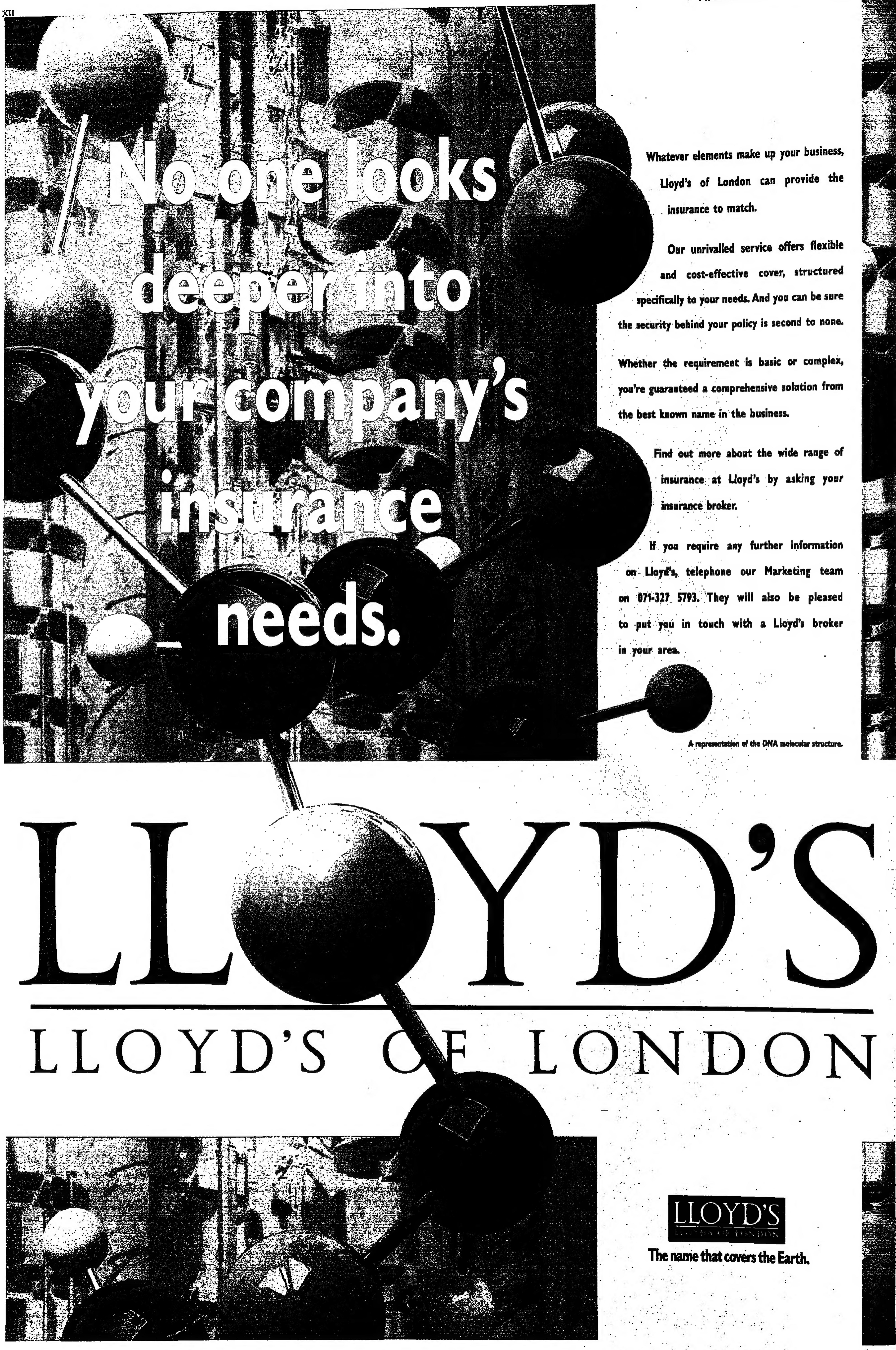
One interesting development has been the recent decision by Sturge Holdings, the biggest managing and members' agency group, to acquire the British American Insurance Agency, a Düsseldorf based insurance agency, for around £1m. The deal represents the first direct entry by any Lloyd's agency group into the German market, and follows Sturge's entry into the French insurance market last year.

BAI, which formerly underwrote on behalf of the Prudential Corporation of the UK, specialises in the insurance of small and medium sized commercial risks in the North of Germany. Sturge's German and French ventures are relatively small. But the important thing, according to Mr James Macdonald, a director of the company, is to get a foothold.

Continental European business still has to be routed through Lloyd's brokers, but this is one area which could see change. As the Rowland task force report pointed out, "the Lloyd's broker network [in Europe] is less well established [than in the US]. At present a managing agent may have to use a small Lloyd's broker to guarantee premiums from a major European broking firm. The commercial rationale for this current requirement is not clear.

It added, "Therefore, the taskforce believes that Lloyd's should 'accredit' a select number of European broking groups with which Lloyd's syndicates could deal direct outside of the London market without interposing a Lloyd's broker."

Tim Dickson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